PRESIDENT CLINTON'S FISCAL YEAR 1997 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 21, 1996

Serial No. 104–22

Printed for the use of the Committee on the Budget

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PRESIDENT CLINTON'S FISCAL YEAR 1997 BUDGET

THURSDAY, MARCH 21, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:10 a.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Hobson, Walker, Kolbe, Shays, Herger, Allard, Miller, Lazio, Franks, Nick Smith, Inglis, Hoke, Largent, Myrick, Bass, Neumann, Sabo, Stenholm, Slaughter, Orton, Pomeroy, Woolsey, Olver, Roybal-Allard, Meek, Rivers, and Doggett.

Chairman KASICH. We are going to have a hearing this morning, of course, with Dr. Rivlin.

I congratulated Dr. Rivlin on her new nomination to the Fed. We found out it is a 14-year appointment, and Mr. Kolbe wanted to know if we could change Congress to 14. Is that what you asked her? I thought you were going to go on and say what——

It is a 14-year appointment which I expect her to serve out and probably assume another position in government after that. But in light of the fact that she is——

I want to congratulate you, Alice. I think it is an outstanding choice. Since you are leaving I don't have to light a fire to pay to you this morning, but I wanted to at least put a couple of things up here that I think illustrate some of the concerns I have.

I think that the first thing I would like to have up there, Doctor, is the little bit from Dr. Rivlin's book because you know—Alice, as you know, a lot of people are talking about the numbers; and I think you understand that the budgets are really not so much about numbers as they are about—except for the generational accounting, which really bothers me. I might ask you why you don't have generational accounting in there and why you think—how we can get the Congress and any administration to agree on a settlement criteria for generational accounting. I think it is just very important people know where we are.

But I—some of my crack staff here, they read your book all the time because it was——

Ms. RIVLIN. I am delighted.

Chairman KASICH [continuing]. And you were quoted as saying that "The following Federal programs would be devolved to the States or gradually whither away." I think you are going to have another good book. I am looking forward to the next one.

When you take a look at the list—elementary and secondary education, skills and job training, child care, housing, infrastructure, economic development, highway, social services, pollution control programs. I might even quibble the list might be too inclusive, rather than too long. I don't know how you do the pollution control. I guess you could.

I wanted to just point out that that is a list that I am particularly comfortable with because I think everything we do today has to be geared to the 21st century, and I think education is clearly one where we need to emphasize it more between parents and the local school district.

The job training I am particularly interested because that, of course, affects productivity; and I am absolutely convinced we need to get it out of here and get it home.

And housing—I was in Chicago a couple of weeks ago and listened to some people make suggestions how they wanted to change Cabrini-Green and actually buy the property underneath Cabrini-Green to develop it and guarantee the residents a right to live in the housing, and the only thing that is getting in the way of that proposal is HUD. So we keep people stuck in those structures without changing them.

Infrastructure and highways and other transportation—by the way, you know we are going to have a big fight here the next couple of weeks about taking the Highway trust fund off-budget. That is going to be an interesting one, and I certainly hope no one on the Budget Committee would vote for that. And I am going to be, I hope, involved in that fight. We will be on the same side as the appropriators for once in a social service, and I think it is really important.

I think it is a very good list; and, frankly, that is the direction we are trying to head in when we look at the level of discretionary spending. I would consider this list, frankly, to be pretty visionary; but I don't think it is consistent with what you have in your budget.

My concern about the deficits, Doctor—if you would put that up there—is it is kind of a two-step chart, the first chart being the President's proposed domestic spending. As you can see, it goes up in the short run, particularly goes up election year, and then it is presumed to come down. Then, based on the trigger, you are going to zoom back up again which I think is, frankly, inconsistent with the chart we just showed.

The other two-step part of this chart is CBO—if you will hold that, Cynthia, there. CBO says that the President's domestic spending, that needs to get balanced, you can see, should go in a decline. With what the President's budget does, it zooms back up. That is why I don't believe this proposal will ever balance the budget and I think puts an incredible burden on the people in the next century to do all the heavy lifting.

But, beyond that, I think the budget that—the President's budget lacks—we don't need to do that one—lacks vision. I think it is stuck in the status quo. It does not have any division statements that you have in your book; and when it gets to the entitlement programs, frankly, it does not make fundamental changes in the

entitlements, which is essentially to shift those programs out of this city as a bipartisan group of Governors had recommended.

So I don't think you will have a balanced budget under this. I don't believe—I believe it is stuck in status quo. I think that, unfortunately, the administration is addicted to Washington spending and Washington taxes; and scarier than even that, in a way, is the addiction to Washington bureaucrats, because there is a fundamental lack of trust in the American people being able to run their own lives.

Outside of that, I think you have done all right. I don't think we are going to get this resolved myself. The press is always nosing around, and my sense is that there are just some things here that are irreconcilable. But unless you——

And I want to compliment you, Dr. Rivlin, because I think that during your stewardship you have, in fact, wanted to push for more change and didn't always get it. I also happen to know and believe—I don't know, but I believe that you really would have loved to have seen us be able to get something put together.

But I think there is great solace in knowing that the return to giant deficits is not going to happen and that balancing a budget and shrinking government is inevitable as long as we don't engage in some kind of a deal that allows us to wink at each other and declare a solution which would be unfair to the next generation. I think the drumbeat of less government and a moving of power money and influence from this city back to where people live is inevitable as we move into the next millennium.

I want to welcome you this morning, and I welcome your testimony.

I recognize Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

Alice, welcome to the committee. Also congratulations on your appointment. You have done a great service to the Congress and to the executive branch of government.

We particularly thank you for all your years that you have served with CBO in working directly with the legislative branch. That is always higher calling than the executive branch. Now you get to the Federal Reserve; and, frankly, there are times I think the Federal Reserve has more control over what we do here than we do. So we hope all your decisions make our job easier rather than more difficult.

Mr. Chairman, let me just bring up one housekeeping—as I locate our—whatever we call it—we have one of your analyses of the budget with some colorful adjectives. Let me just suggest that if you want to put out analyses with colorful language they should go out on stationery other than stationery that includes all of us.

Chairman KASICH. I think that is a fair comment.

Mr. SABO. I, frankly, put out an analysis of the President's budget from my own caucus; and even for putting out from within our own caucus, I note that the document is not something that has been approved by our caucus and may or may not reflect their point of view. I would suggest also that if it goes for distribution way beyond Congress you might consider——

Chairman KASICH. Let me just say I agree with what the gentleman is saying. Unfortunately, we only have one set of papers, so

what we will do is write "not not" over the top of your names the next time we do an analysis. But that is a fair point, Mr. Sabo. We will put a disclaimer or something.

Mr. SABO. Alice, I hear all this discussion about what has or hasn't and what may or may not happen to the deficit in the future. As I recall, there were CBO projections 2 years ago. One of our descriptions here is anything CBO says, that is real and honest and all of those good things. I recall that CBO projected in 1993—a deficit of $310 billion in January 1993, $310 billion of deficit in 1993, $291 billion in 1994, $284 billion in 1995, $287 billion in 1996.

You, the administration, and the Congress acted; and the result has been that the projected deficit of 287 for 1996 is now estimated around $160 billion, a rather substantial and dramatic change in what was projected because of the leadership of the President and Congress in 1993. The deficit has come down for 4 years in a row.

At the same time, the economy has responded by growing jobs. Change in the Federal Government has occurred. The reality is that Federal employment is down. Streamlining of government has occurred. Today, the Federal work force is at its smallest level in 30 years and as a percentage of the total work force is at its lowest level since 1931. That has been done in a thoughtful fashion with sensitivity to employees, recognizing the important work Federal employees do for all of us.

I, frankly, today hear this constant bashing of people who perform important work for the Federal Government. They see us as we begin our 11th, 12th continuing resolution going through close-downs of government, regular bashing of them. I think we have a demoralized work force today. It would be hard to not have a demoralized work force as they see the mismanagement of the legislative session.

So I would thank you, commend you for the great work that you have done and the administration has done in turning the chaos of the 1980's around and bringing our fiscal house in order, beginning the tough work day in and day out of reforming the Federal Government, not destroying it.

You have great accomplishments. We would not be visiting about the accomplishments we have in 1995 or what we have to do in the future if it weren't for the leadership of the President, and you and others in the executive branch. The work you led in 1993 provided the framework for us to move forward.

I still hope we have the capacity to find agreement across parties and across ideology in 1996. I may be an optimist. I still hope we can do it. If we can't, then the task goes to us in 1997. But I thank you for your great work, the administration's great work and look forward to hearing your testimony.

Chairman KASICH. Doctor.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Ms. RIVLIN. Thank you very much, both of you. I appreciate the kind words.

I am really happy to be back before the committee one more time to present the President's budget for fiscal 1997. I am proud of this

budget. I think it is a very good budget and I believe it can serve as a basis for a real dialogue about where the country goes from here.

I also hope very much that we can finish work on fiscal 1996 without having another government shutdown.

The bills that recently passed the Senate restore some of the funding for programs the administration has cared most about, namely in the areas of education and the environment. We saw that as a very positive step, and we hope we can work with both the House and the Senate to put together a spending bill that Congress can pass and the President can sign. We can then get on with the business of government in 1996 and move on to the 1997 budget.

We hope the President's 1997 budget proposal can serve as a basis for a bipartisan agreement, not only one that will give us 1997 appropriations before the fiscal year begins, which would be nice, but one that will put the budget firmly on the track to balance. I share Mr. Sabo's optimism that somehow good sense will prevail and we can get, before the election, an agreement that will put the budget on the path to balance. As the President has said, we need to do that now, not after the election.

I think three words describe this budget: balance, reform, and investment. The Clinton administration, as Mr. Sabo pointed out, is building on a very strong record with respect to deficit reduction. The deficit was $290 billion in fiscal 1992, the fiscal year that had just ended when the President took office. It was $164 billion in fiscal 1995. That much is history. It is a very credible record of deficit reduction.

We estimate this year's budget deficit will be about $146 billion. That estimate assumes the restoration of the $8 billion in BA for education, the environment, and technology that we are now arguing for as we work to wrap up the fiscal 1996 budget.

But since fiscal 1996 is half over, we can't be that far off in estimating the deficit. If $146 billion turns out to be about right, the President would have fulfilled his campaign promise of cutting the deficit in half in 4 years.

We have already, in fiscal 1995, cut the deficit in half in terms of its relationship to the economy as a whole. It has come down from 4.9 percent of the GDP in 1992 to 2.3 percent in 1995, and it will be under 2 percent this year.

This budget lays out a plan for finishing the job; it would balance the budget by 2002. We believe our plan would balance in 2002, using the economic and other assumptions of the Congressional Budget Office [CBO]. Although we can't know that for sure, we have worked very hard on the specific provisions and proposals in this budget to ensure that CBO would score them in a way that would bring us into balance in 2002. In many cases, we worked with CBO and actually changed the wording or the substance of proposals to ensure they would get CBO scoring.

So we believe our budget will balance in 2002 when CBO looks at it; in fact, we think it will do a little better than that. But to be absolutely certain it reaches balance, we put in an insurance policy. CBO will most likely revise its economic outlook and its estimates; and if they do so in a way that indicates that our budget

is not balanced in 2002, we propose cutting additional discretionary spending to close the gap. We don't expect the gap to be large, but we would propose reducing the discretionary caps enough to close it in 2002. So our budget will reach balance in 2002, even if CBO revises its estimates.

Reaching balance in 7 years using CBO numbers is something that you personally, Mr. Chairman, and many Members of Congress, especially of your party, put an enormous emphasis on. I remember your saying, and I quote, "Frankly, we don't ask a lot. We ask for nothing more than a commitment to do this in a 7-year period. The priorities within that 7-year period are negotiable." We have submitted a budget that balances in 7 years under CBO scoring.

We are slightly more optimistic about the economy than CBO is, and we don't mind saying that. Over the last 3 years, the economy has performed better and the deficit has come down faster than either CBO or OMB predicted. So we are not embarrassed to give the OMB assumptions about this budget.

.Under OMB assumptions, this budget would reach balance in 2001 and run a considerable surplus in 2002. If that surplus, or fiscal dividend, materializes, we propose using it to extend the President's proposed tax cuts and reduce the cuts in discretionary spending. That is why, under OMB assumptions, discretionary spending would go back up again in the last 2 years, as you pointed out in your chart.

This budget does not just get to balance. We believe it does it in the right way. It does it by reforming entitlement programs and investing in the future. About half the savings in this budget come from mandatory or entitlement programs. We don't gut Medicare or Medicaid or welfare. We don't believe in extreme solutions, but we do propose major changes that will make those programs work better and cost less.

With respect to Medicare, the budget saves $124 billion over 7 years while strengthening the Medicare program. It extends the solvency of the Hospital trust fund for at least another decade. It gives seniors more choices among private health plans and more information about those plans, and it mounts a vigorous attack on fraud and abuse. It reduces the rate of growth of provider payments but sets the part B premium at 25 percent of that program's cost.

With respect to Medicaid, we believe in giving the States much more flexibility to use Federal funds as they see fit. We would allow the Governors to move the Medicaid population into managed care without a waiver or to use home- and community-based care without a waiver. We also would impose limits on per capita spending in Medicaid; but we would preserve the guarantee to Medicaid coverage for our most vulnerable citizens and ensure that the money continues to flow to the States with the most needy people.

With respect to welfare, the President has been a leader on welfare reform. Our program makes assistance time limited and conditional on work, but it protects children and provides more funds for child care.

The budget is also very strong on investing in the future. We believe the overriding objective of economic policy ought to be raising

the living standards of average Americans. Bringing the budget deficit down and freeing up more funds for private investment is one way to do it, but it is not the only way. We need also to improve education and training, invest in technology, and protect the environment.

This budget does contain increases in, for example, the Head Start Program. We would offer Head Start opportunities to 800,000 children in 1997, an increase of about 46,000; and the budget would offer opportunities to about a million children by 2002.

The budget also would increase help for dislocated workers, those who are buffeted by change in the economy, to acquire new skills and new jobs. It would do it in a way that would empower workers by giving them a voucher for training. We believe workers themselves are best able to figure out what type of training they need.

The budget also would fund some important environmental projects, including the restoration of Florida's Everglades, a major project we are undertaking to protect that national treasure from further abuse.

"Reform," "investment," and "balance" are the words that describe this budget. And investments occur both on the spending side and on the tax side.

But the main point Mr. Chairman, is that we can balance the budget. We can do it in 7 years. We can use the conservative assumptions of the Congressional Budget Office. The President has offered a plan to do that. We want to work with Congress and the congressional leadership to get it done, and we look forward to working intensively with you, this committee and with the rest of Congress to achieve that end.

Thank you.

[The prepared statement of Alice Rivlin follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, members of the committee, I am pleased to be with you today to discuss the President's budget for fiscal 1997.

This budget:

- Reaches balance in 2002, while
- Reforming entitlement programs, and
- Continuing to invest in the future.

The budget reaches balance the right way, by making government more efficient and cutting lower priority spending. It is designed to make further progress on the central goal of this administration—to promote a strong economy and, with it, higher average living standards now and in the future.

This budget reaches balance in 7 years, using either the administration's economic and technical assumptions or the latest assumptions from the Congressional Budget Office.

If I have a single point to make today, it is this: The President is committed to putting the budget firmly on a track to balance this year—not after the political season, not after the November elections, but now.

We should not let this opportunity pass us by. Over the last several months, the President worked closely with the bipartisan congressional leadership to reach an agreement on balancing the budget over 7 years. He spent over 50 hours with the leaders in serious, productive negotiations. They came much closer together.

In fact, the two sides have close to $700 billion in savings in common—savings in entitlements and discretionary programs, savings in Medicare and Medicaid, and savings in welfare and other programs. Those savings would not only balance the budget, but also pay for a modest tax cut for average Americans and small businesses. The budget embodies those common savings.

The congressional leadership wants bigger tax cuts, offset by deeper cuts in Medicare and Medicaid, other mandatory programs that help farmers and the poor, and

discretionary spending. But the President believes those cuts are too deep and would threaten the Government's vital role in guaranteeing health care to vulnerable Americans and investing in the future. He has proposed that the two sides quickly enact the savings they have in common and give the American people a balanced budget.

1. THREE YEARS OF PROGRESS

Upon assuming office over 3 years ago, this administration faced two problems.

- First, we had an economy stuck in low gear. Although it had emerged from recession almost 2 years earlier, growth was slow. In fact, the unemployment rate at the beginning of 1993 was a quarter-point higher than when the recession ended. Investment was slow, limiting growth in future productivity and living standards.
- Second, we inherited a huge budget deficit. It had risen from a then-record $74 billion in 1980 to $290 billion in 1992. As a share of the Nation's Gross Domestic Product [GDP], the deficit was at levels that it had previously reached only in recessions. The 1980–92 deficits, in turn, quadrupled the national debt in just 12 years. And perhaps most ominously, the debt grew much faster than the economy. From 1981 to 1993, the ratio of national debt to GDP almost doubled.

The size of the budget deficit and the weakness of the economy were not unrelated. As long as the Federal Government would claim so much of the Nation's supply of credit, interest rates would remain high, and investment would remain correspondingly low. Without greater investment, growth would remain sluggish in the short run, and productivity and incomes would be limited in the long run.

Facing such serious challenges, the President stepped up to the plate. Despite concerns about the near-term economic and political implications, the President put the long-run interests of the Nation first and proposed a serious deficit reduction plan.

Skeptics reacted strongly. Many predicted that the economy would plunge into recession, that employment would shrink, and that the deficit actually would rise, rather than fall. They were wrong:

- The economy has performed better than even we had projected. Strong economic growth means higher incomes and greater prosperity.

  Real median family income rose in 1994 (the last year for which data are available) compared to 1992, the year before the President took office. The rise was the first since 1989. The poverty rate also fell for the first time in 5 years.

  Since January 1993, real average hourly earnings are up by 0.6 percent—reversing a trend of falling wages through the 1980's.
- During the 1992 campaign, then-Governor Clinton promised 8 million new jobs in 4 years. Last month, with the President in office just over 3 years, job growth hit 8.4 million. Moreover, this increase in employment has been solid.

  Almost 93 percent of the new jobs are in the private sector.

  More than half of the jobs are in the high-paying managerial and professional occupational categories.

  After falling for the preceding 12 years, manufacturing employment is up in this administration.

  The new jobs are full-time jobs. While total employment is up by 8.4 million under this administration, part-time employment among those who say they would prefer to work full time but cannot find full-time jobs has fallen by 1.45 million.
- Even though the economy continues to grow, interest rates are down—partly because the President addressed the deficit problem. On the day the President took office, the 30-year Treasury bond yield stood at 7.32 percent. It has fallen below 6 percent at times in the last 3 years and now stands below 7 percent.
- Investment has boomed under this President. Inflation-adjusted investment in producers' durable equipment has grown at double-digit rates—two-and-a-half times faster than from 1981 to 1988. That increase, which reflects the private sector's confidence in America's economic future, is the best proof that the President's policies are good for business, investment, and capital formation.

Stock market investors believe in prospects for this economy as well; stock prices are up over 60 percent in 3 years.

- Even in a growing, high-employment economy, inflation remains low. Under most measures, inflation has remained below 3 percent a year—even with unemployment under 6 percent since mid-1994.

To date, the President's budget policies have cut the deficit much more than the administration or CBO has projected. We believe that this budget also will exceed CBO's estimates for deficit reduction, thus leaving the tax cuts in place.

On the other hand, if deficit reduction is proceeding well ahead of CBO's estimate, a "trigger" provides for (1) continuing the tax cuts, (2) adding to discretionary spending after the year 2000, and (3) splitting any additional savings among more tax cuts, more discretionary spending, and more deficit reduction.

• Second, the budget includes a mechanism to ensure balance in the face of changing CBO economic and technical assumptions. CBO plans to update its assumptions in March or April, and these assumptions could change the President's path to balance; in 2002, they could produce a bigger surplus or a deficit. In the event that CBO estimates a deficit in 2002, the budget calls for an automatic reduction in the discretionary spending limits, or "caps," to reach balance.

As you can see, the President has gone the extra mile to keep his commitment to reaching balance in 7 years, as scored by CBO. We hope this satisfies those in Congress who have said that their most important goal was a 7-year, CBO-scored balanced budget.

2. CONTROLLING SPENDING

The President's economic program of 1993 was designed to generate $505 billion of deficit reduction over 5 years, with more than half ($255 billion) coming through lower spending. In fact, we now estimate that the 5-year plan, plus the economic improvements that the plan helped to bring about, will generate $796 billion in deficit reduction.

It is spending constraint, more than increased revenues, that put deficit reduction ahead of schedule. In fiscal 1994 and 1995, over 60 percent of the deficit reduction above what we had originally expected has come because spending was lower than projected; less than 40 percent has come from greater-than-expected revenues.

In 1995, Federal outlays equaled 21.7 percent of GDP—the lowest ratio since 1979. In both 1994 and 1995, spending was a smaller share of GDP than in any year under the previous two administrations.

Furthermore, since 1992, Federal spending has grown at an annual rate of 3.2 percent per year—less than half the rate of growth in 1988–92 (6.7 percent) or 1980–88 (7.6 percent). In "real" (inflation-adjusted) terms, the disparity is even more striking. Real spending since 1992 has grown only 0.8 percent a year—less than a third the rate of 1988–92 (2.5 percent) or 1980–88 (2.7 percent).

The President's 1997 budget continues to control spending. The President proposes about $630 billion of spending cuts (measured with CBO scoring) over the 7-year period, 1996–2002.

Discretionary spending. About $297 billion of the savings will come in this category. Discretionary spending is already at its lowest share of GDP since at least 1962. In inflation-adjusted dollars, discretionary spending in 2002 would reach its lowest level since 1979.

Through its proposals for discretionary spending, the budget funds a government that is leaner, but not meaner, one that works efficiently, manages resources wisely, focuses on results rather than merely spending money, and provides better service to the American people. Through the National Performance Review, led by Vice President Gore, we are making real progress in creating a Government that "works better and costs less."

We have cut the size of the Federal work force by over 200,000 people, creating the smallest Federal work force in 30 years and the smallest as a share of the total work force since before the New Deal. We are ahead of schedule to cut the work force by 272,900 positions, as required by the 1994 Federal Workforce Restructuring Act that the President signed into law.

Just as important, the government is working better. Such agencies as the Social Security Administration, the Customs Service, and the Veterans Affairs Department are providing much better service to their customers. Across the government, agencies are using information technology to deliver services more efficiently to more people.

We are continuing to reduce the burden of Federal regulation, ensuring that our rules serve a purpose and do not unduly burden businesses or taxpayers. We are eliminating 16,000 pages of regulations across government, and agencies are improving their rulemaking processes.

In addition, we continue to overhaul Federal procurement so that the government can buy better products at cheaper prices from the private sector. No longer does the government pay outrageous prices for hammers, ashtrays, and other small items that it can now buy more cheaply at local stores.

As we look ahead, we plan to work more closely with States and localities, with businesses and individuals, and with Federal workers to focus our efforts on improv-

ing services for the American people. Under the Vice President's leadership, agencies are setting higher and higher standards for delivering faster and better service.

Entitlements. Another $277 billion of spending cuts comes in this category, building on this administration's impressive record of restraint. Since 1992, entitlement spending has grown less than half as fast as in 1988–92 (2.4 percent a year, compared to 5 percent) despite today's larger and faster-growing elderly and retired population.

The budget brings much-needed reforms to the major entitlements—including Medicare, Medicaid, and welfare—while protecting the elderly, working families, children, and other vulnerable Americans.

Medicare: The budget strengthens and improves Medicare, extending the solvency of the Part A Hospital Insurance trust fund through the next decade. It gives older Americans and people with disabilities more choices among private health plans, makes Medicare more efficient and responsive to beneficiary needs, attacks fraud and abuse through programs praised by law enforcement officials, slows the growth rate of provider payments, and holds the Part B Supplementary Medical Insurance premium at 25 percent of program costs; it imposes no new cost increases on beneficiaries.

The budget reforms payment methods for hospitals, doctors, managed care facilities, and other providers; enhances access to, and the quality of, health care in rural areas; expands and improves Medicare managed care; and expands coverage of preventive benefits.

Medicaid: The budget reforms Medicaid to give States unprecedented flexibility to manage their programs while preserving the guarantee of health coverage for the most vulnerable Americans. Millions of children, pregnant women, people with disabilities, and the elderly would retain the guarantee of basic health and long-term care services.

The budget imposes a per-person limit on spending, and cuts Disproportionate Share Hospital [DSH] payments and retargets them to hospitals that serve large numbers of Medicaid and uninsured patients. It provides special payments to States for their transition into the new system, and for meeting their most pressing needs. It gives States significant new flexibility to administer their programs more efficiently. And it retains current nursing home quality standards and enforcement, and continues to protect the spouses of nursing home residents from impoverishment.

In addition, the budget proposes premium subsidies to help those who lose their jobs pay for private coverage for up to 6 months.

Welfare: Welfare reform is mainly about work. The President's plan would repeal Aid to Families with Dependent Children [AFDC] and create a new, time-limited, conditional entitlement for cash assistance. As soon as they join the rolls, beneficiaries would have to develop and sign a personal responsibility contract with their welfare office. Within 2 years, able-bodied parents would have to work or lose their benefits. And after 5 years, they would no longer get cash benefits.

The budget builds upon the steps that the President has already taken to fix specific parts of the welfare system. In 1994, the Federal Government collected a record $10 billion in child support. A year later, the President signed an Executive order to make the Federal Government a model employer for collecting child support. In July 1995, the President ordered that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher Food Stamp benefits when their welfare checks are cut. And, over the last 3 years, the administration has given 37 States the freedom to test ways to move people from welfare to work and protect children.

3. INVESTING IN THE FUTURE

Like the President's previous budgets, this budget proposes steps to help Americans build a brighter future for themselves and their families. It maintains the President's investments in education and training, science and technology, environmental protection, and other priorities. And it maintains a strong defense and provides the resources to conduct an effective foreign policy.

Education and Training: Today's most successful workers are those with technical skills and a firm educational footing who continue to learn throughout their careers in order to compete successfully in this fast-changing economy.

The budget maintains and expands the President's investments in Head Start, Goals 2000, Charter Schools, Title I—Education for the Disadvantaged, Safe and Drug-Free Schools and Communities, and Pell grants. It proposes an income tax deduction of up to $10,000 to help middle-income families pay for postsecondary education and training expenses. And it proposes a series of new initiatives.

Because technology can expand learning opportunities for all students and help raise student achievement, the President is proposing a "Technology Literacy Challenge Fund," with four goals: helping States put enough computers in every classroom; connecting these computers to the Information Superhighway; giving teachers the training they need to integrate technology into teaching; and fostering the development of high quality, widely available educational software.

The President also proposes to create an achievement-based scholarship program, rewarding the best and the brightest of high school students. Ibis program would grant $1,000 honors awards to the top 5 percent of graduating students in every secondary school in the Nation, making clear the government's commitment to excellence for all children.

The Environment: Americans want a government that helps protect the environment and our natural resources without burdening business, choking innovation, or wasting taxpayer dollars. To meet these objectives, the administration has been reinventing the regulatory process to cut excessive regulation, and targeting investments in programs that will have the biggest impact on improving the environment, protecting public health, providing more opportunities for outdoor recreation, and enhancing natural resources. While continuing to maintain environmental enforcement and protect national parks and other sensitive resources, the President proposes new initiatives to address specific environmental challenges.

The President proposes to offer a targeted tax incentive to clean up "brownfields"—older, contaminated industrial sites in distressed urban and rural communities. This incentive would spur the private sector to create jobs, return land to productive use, and clean up the environment in our communities.

The President also proposes an "Everglades Restoration Fund" to provide a steady source of funding mainly for land acquisition to maintain the South Florida Ecosystem—a unique national treasure that includes the Everglades, Florida Bay, and other internationally renowned natural resources. The budget proposes $100 million a year for 4 years to establish the fund. It also proposes a 1-cent-per-pound marketing assessment on Florida sugar production, which would add about $35 million a year to the fund.

Science and Technology [S&T]: Technological innovation has accounted for at least half of the Nation's productivity growth in the last 50 years. Technology has become a major engine of economic growth, a significant contributor to our national security, a generator of new knowledge, and a critical tool in protecting our health and environment.

The budget maintains vital investments in S&T by adding funds for basic research in health sciences at the National Institutes of Health, for basic research and education at the National Science Foundation, for research at other agencies that depend on S&T for their missions, and for cooperative projects with industry and universities.

The budget maintains the President's commitment to biomedical and behavioral research, which promotes the health and well-being of all Americans. For the National Institutes of Health, the budget includes increases for HIV/AIDS-related research, research into breast cancer and other health concerns of women, minority health initiatives, high performance computing, prevention research, gene therapy, and developmental and reproductive biology.

Also with regard to AIDS, the budget proposes increased funding for the Ryan White CARE Act for grants to cities disproportionately affected by the HIV epidemic; to States to provide medical and support services; to community-based organizations to provide HIV early intervention services; and to support pediatric AIDS demonstration activities. The President also has sought more funds for State AIDS drug assistance programs funded under title II of the Ryan White program—to finance newly discovered life-prolonging AIDS therapies, some of which are beginning to receive FDA approval.

American Leadership: The budget provides the resources to support U.S. diplomatic leadership in defending our interests and promoting democracy, free markets, and peace throughout the world. It also proposes to continue sustaining and modernizing the world's strongest, best-trained, best-equipped, and most ready military force.

On the diplomatic side, the budget proposes to increase funding for international security assistance to support the peace process in the Middle East (including partial financing of a squadron of F–16 aircraft for Jordan), to further the move toward free markets and democracy in Central Europe and the New Independent States through programs such as the President's Partnership for Peace initiative, and to continue to support the peace process in the Balkans.

To promote an open trading system, the budget puts a high priority on programs that help U.S. exporters meet foreign competition and seize the opportunities that

trade agreements offer. It proposes to address the new transnational threats to U.S. and global security and prosperity; to better meet our commitments to international organizations; to increase voluntary contributions to a variety of international organizations principally involved in development, population, and environmental programs; and to continue providing humanitarian and disaster relief.

For defense, the budget continues the administration's policy of the last 3 years—sustaining and modernizing the world's strongest and most ready military force, capable of prevailing with our regional allies in two nearly simultaneous regional conflicts. This budget maintains our commitment to high levels of training and readiness for that force and equipping it with technology second to none.

The President continues to strongly back programs that support military readiness, directly or indirectly. Our Armed Forces have been extremely successful in attracting and retaining motivated, high-quality personnel, in part due to the President's continuing strong commitment to adequately fund service members' quality-of-life programs. For example, the budget provides military personnel a 3-percent military pay raise, effective January 1997, and increased funding to upgrade and improve military barracks and family housing.

4. CUTTING TAXES FOR AVERAGE AMERICANS AND SMALL BUSINESS

The President believes we can balance the budget and, at the same time, provide modest tax relief for middle-income Americans and small businesses. Because resources are scarce, we must put them where we need them most. Thus, the President has proposed tax-cut initiatives that focus on the highest family and national priorities, and that will help families and small businesses to help themselves.

Child tax credit. To help moderate-income working families with children, the budget phases in a $500 tax credit for dependent children. The full credit is available for families with incomes under $60,000, and the credit is phased out at incomes of $75,000. The credit will apply before the earned income tax credit, thus giving these moderate-income families even more help.

Tuition deduction. The budget phases in a $10,000 tax deduction for education and training expenses, including college tuition. It will be available whether or not the taxpayer itemizes deductions, and is phased out between $100,000 and $125,000 of income. It will provide relief from the heavy burdens of college and mid-career training costs, and should encourage especially those families who may be most deterred by the up-front cost of trying to send their first family members to college.

Individual Retirement Accounts. The budget expands the availability of Individual Retirement Accounts [IRA's] by doubling, over time, the income limits. It allows families to make penalty-free withdrawals for educational, housing, and medical needs. It establishes new backloaded IRA's for those eligible for regular deductible IRA's. These provisions will encourage families to save for their own retirements and for other contingencies, so that they can contribute to their own economic security.

Small business incentives. The budget increases, from $17,500 to $25,000, the amount of investment eligible for expensing, thus reaching the level that the President originally proposed in 1993. It also provides targeted relief from estate taxation for small businesses and family-owned farms.

Pension simplification. Building on bipartisan efforts in the Congress, the President proposes to simplify rules (and expand coverage) for pension plans sponsored by businesses of all sizes, nonprofit organizations, and State and local governments, as well as for multiemployer plans. The budget includes a new, simple retirement savings plan (the National Employee Savings Trust, or NEST) for small businesses that combines the most attractive features of the IRA and the 401(k) plan, minimizes administrative and compliance costs, and eliminates the need for employer involvement with the Government.

Urban and environmental initiatives. The President proposes to expand the number of enterprise zones [EZ's] and enterprise communities [EC's], and to liberalize the tax treatment of expenses for environmental remediation of contaminated sites ("brownfields") in low-income areas.

To finance these initiatives and help reach balance, the budget saves $59 billion over 7 years by cutting corporate tax subsidies, closing loopholes, and improving tax compliance. For example, the budget prevents corporations from achieving tax arbitrage by deducting interest on borrowings against life insurance policies on their employees, or where the corporation owns tax-exempt obligations; addresses recent developments in tax-motivated financial products; curtails manipulation of the tax accounting rules; and tightens rules that are designed to prevent tax avoidance through expatriation and the use of foreign trusts.

The budget improves compliance with, and refines eligibility for, the earned income tax credit [EITC]. But it protects the 1993 expansion of the EITC that cut taxes for 15 million working Americans. We must not raise taxes on low- and moderate-income working families with children to pay for tax cuts for the most well-off.

5. COMPLETING THE TASK

I will conclude my testimony where I began: The President is committed to reaching an agreement with Congress to balance the budget—and doing it this year.

We stand at an important moment in the Nation's history. For the first time in memory, we have a President and Congress who agree on the need to balance the budget. We must not waste this opportunity.

Chairman KASICH. Let me, first of all, ask the Doctor for your list of program terminations in your budget. Do you have a list of those terminations?

Ms. RIVLIN. I have a partial list, Mr. Chairman, of programs and projects that we are terminating in 1997. I think we can get you a more complete list in a day or so.

Chairman KASICH. What are the examples of those program terminations? Are they—give us a couple of examples.

Ms. RIVLIN. I can give you several. We have terminated a lot of things already. In fact, we have proposed terminating 471 programs and projects over the last 4 years.

Chairman KASICH. What have you terminated so far?

Ms. RIVLIN. Rural Utilities Assistance Program, the Fire Protection Program, Interstate Commerce Commission, Commerce International Trade Administration, Trade Development Program.

Chairman KASICH. Basically, what does that add up to, all that list you are giving me?

Ms. RIVLIN. Of terminations?

Chairman KASICH. Yes.

Ms. RIVLIN. It is not a complete list.

Chairman KASICH. How about the list you have, essentially what does it add up to out of a trillion-dollar budget?

Ms. RIVLIN. It is small.

Chairman KASICH. How much is it? Give me a number.

Ms. RIVLIN. $4.5 billion.

Chairman KASICH. $2.4 billion out of $1.6 trillion—we have a lot of young people sitting in the crowd—over the next 7 years we have a list of $2 billion out of a $1.6 trillion, that is $1.6 trillion out of $13 trillion. You have $2 billion in terminations.

Ms. RIVLIN. Mr. Chairman, as you know very well, most of the money in the budget goes to a small number of programs that everybody in this room has agreed we need: Social Security, Medicare, defense.

[The information referred to follows:]

RESPONSE TO QUESTIONS ON PROGRAM TERMINATIONS FROM MR. KASICH

In his fiscal 1997 budget, the President proposes to terminate more than 100 programs and projects, which stretch across various executive branch departments and agencies. These terminations would reap savings of more than $4.5 billion in defense and nondefense programs and projects in 1997 alone.

For example: terminations in the Agriculture Department include savings from buildings and facilities; Commerce Department terminations include the National Textile Center Grant Program; Defense Department savings include the Armored Gun System; the President proposes to save $624 million from the Department of Housing and Urban Development preservation program; and Interior Department

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savings include $64 million from the Bureau of Mines. Overall, nondefense terminations fall within the jurisdiction of 15 department, agencies, and commissions.

We have just completed a new analysis of program and project terminations. Over the 4 year period 1994–1997, the Clinton administration proposed to terminate 471 programs and projects which would save $8.3 billion in budget authority. When the fiscal year 1996 appropriations process is completed we will be able to compile a complete list of programs and projects that have actually been terminated.

Chairman KASICH. Let's talk about Medicare. Now, isn't it true that you transferred over $60 billion out of Medicare in order to save the trust fund, and put on the backs of the young people that are sitting in this room? You haven't dealt with Medicare, how long—without transferring the $68 billion home health care out of the Medicare trust fund, how long is the Medicare trust fund solvent?

Ms. RIVLIN. I can't give you an exact answer to that.

Can I just finish the sentence, would that be OK?

Chairman KASICH. Yes.

Ms. RIVLIN. Let me talk about the $60 billion transfer, which was also in the Republican bill, in a slightly different form, as you know.

What we have done there was——

Chairman KASICH. Wait. What do you mean it was like that in the Republican bill? We put savings in, we didn't shift stuff out.

Ms. RIVLIN. Yes, you did, Mr. Chairman. The Republican bill, which the President vetoed, provided for the transfer of part of the home health money from Part A to Part B. It is a slightly different way of doing it, but it——

Chairman KASICH. That is not in the proposal, Doctor, you need to go back and collect it, that is not an accurate statement but go ahead with your explanation of moving—let me set the stage here. The situation is you have the Medicare trust fund that is going bankrupt shorter than 7 years, and what the administration did was to move $60 billion from the trust fund and put those obligations into the general fund, and the doctor has an explanation for it.

Ms. RIVLIN. We are not moving anything out of Medicare; we are talking about the split between Part A, which is the Hospital trust fund, and Part B. And we are talking about home health care. Home health care was originally in Part A because it was a post-acute, post-hospital benefit.

We still believe post-acute, post-hospital benefits should be in Part A, so we have retained in Part A the first 100 post-hospital visits. That is post-acute care and it belongs in Part A. That is, roughly, the way it was originally conceived.

Over the years, Congress, for presumably good reasons, has loosened up on home health care so that visits are now essentially unlimited, and they aren't just for post-acute care. You can get home health care even if you haven't been in a hospital, so long as you have a chronic condition. It has become like long-term care.

That is not bad, but it doesn't belong in the Hospital trust fund. What we are saying is that up to 100 visits after a hospital stay should be covered in Part A; the hospital part and subsequent visits should be covered under Part B. The Republican bill, which the President vetoed, contained a similar split.

Chairman KASICH. Well, the situation is, so the young people in this room understand, what you have done in order to extend the life of their parents' Medicaid trust fund, is to transfer responsibilities out of the Medicare trust fund in order to extend the life, then you move the cost of that into the general fund. I mean, it is a——

Ms. RIVLIN. Into Part B.

Chairman KASICH. It is a shell game, Part B is financed by the general fund, you didn't want the premium to go up so you wanted young people to shoulder even more of the responsibility, is what you did. You didn't extend the life of the Medicare trust fund because you slowed the growth, you extended the life of Medicare trust fund because you put more on the backs of young children. That is what you did.

Ms. RIVLIN. No, I don't think so. There are two parts to Medicare and we ought to have the right things in the right parts. The bill that you passed, while it may have been stated slightly differently, would have moved $40 billion out of Part A into Part B, for the same reasons. It may not be clear whether 40 or 60 is the right number, but we seem to be agreeing on the policy.

Chairman KASICH. Again, we are not moving stuff from Part A, the trust fund, into Part B, which is financed 75 percent by the general fund. This is——

Ms. RIVLIN. We have a factual difference here, but it is my understanding that you are doing that.

Chairman KASICH. No, we have moved savings that we have into Part A, is what we do. Look, it is just Washington-speak for this. It is Washington-speak for duck.

Ms. RIVLIN. There isn't much duck here, Mr. Chairman. We have proposed reductions in provider reimbursement. Now, these reductions may not be as deep as some would like, but they produce $124 billion in savings over 7 years, and that is a very considerable amount of savings.

[The information referred to follows:]

RESPONSE TO QUESTIONS ON MEDICARE FROM MR. KASICH

The two Medicare trust funds are the Hospital Insurance [HI] (Part A) trust fund and the Supplemental Medical Insurance [SMI] (Part B) trust fund. Because the SMI trust fund is predominantly financed from general revenues, it cannot be viewed as a true trust fund. References to the "impending insolvency" of Medicare generally refer to the financial condition of the HI (Part A) trust fund. The HI trust fund's financial condition is improved either by reducing the amount of HI outlays or by increasing the amount of income to the trust fund. The fiscal year 1997 President's budget, the House-passed Medicare Preservation Act of 1995 (H.R. 2425), the Senate-passed reconciliation bill, and the final conference agreement (H.R. 2491) all included proposals to shift flows of financing from one Medicare trust fund to the other, with the result that the solvency of the HI (Part A) trust fund is enhanced.

Home Health Outlay Shift From HI (Part A) to SMI (Part B). The President's fiscal year 1997 Budget includes a proposal to shift certain outlays for home health care services from the HI (Part A) trust fund to the SMI (Part B) trust fund. Specifically, the first 100 home health visits following a 3-day hospital stay would be reimbursed under HI. All other visits, including those not following hospitalization, would be reimbursed under SMI. The visits provided under SMI would not be subject to the SMI deductible or a coinsurance charge, nor would this shift affect the SMI (Part B) premium. For those beneficiaries who are eligible for only HI or SMI, the benefit would be financed completely by the operative part.

History of the Home Health Benefit. Medicare home health was originally designed to serve as an acute care benefit, but it has increasingly become a long-term care benefit—in 1992, more than 10 percent of home health users had over 150 visits. Prior to July 1, 1981, home health benefits were limited to 100 visits under HI (Part

A) and 100 more visits under SMI (Part B). OBRA 1980 effectively made the home health benefit unlimited under HI (Part A).

Rationale for Shifting Outlays. Home health is one of the fastest growing Medicare benefits, with increases in the number of visits per beneficiary driving this growth. Applying a limit to the HI home health benefit would recognize that HI covers acute care services, and the HI trust fund would no longer be forced to support a chronic care benefit. At the same time, moving the remainder of a beneficiary's visits to SMI ensures that no beneficiary would be denied home health care.

House Medicare Bill Also Included Home Health Outlay Shift From HI (Part A) to SMI (Part B). The House-passed Medicare Preservation Act of 1995 and the House-passed reconciliation bill (H.R. 2491) also proposed a limit on HI home health coverage. The House bill would have limited HI home health to 165 days of home health care per episode of illness. Visits beyond 165 days would be paid by SMI.

Mechanics of Financing the Outlay Shift. Both the House-passed bill and the administration's proposal stipulate that the outlay shift will have no impact on the SMI (Part B) premium. The annual Federal contribution to the SMI trust fund would be increased by an amount exactly equal to the home health outlays shifted from HI to SMI.

CBO's preliminary scoring estimates that the administration's proposal would shift approximately $62 billion in outlays from HI (Part A) to SMI (Part B) over 7 years. In its October 1995 analysis of the House Medicare bill, CBO estimated that the House Medicare bill would shift approximately $54 billion in outlays from HI (Part A) to SMI (Part B) over the same time period.

Shifting Income to the HI (Part A) Trust Fund. The Senate Medicare reform bill and the final conference agreement included proposals that would improve the HI trust fund's financial condition by shifting certain types of income from the SMI (Part B) to the HI (Part A) trust fund.

Senate Medicare Bill. The following amounts would have been transferred to the HI trust fund: increases in SMI premium revenue from setting the premium at 31.5 percent of program costs; increases in revenue from an income-related (means testing) SMI premium; decreases in outlays from an increase in the SMI deductible. Mechanically, this would work by creating a permanent appropriation from the general fund to the HI trust fund equal to the estimated savings from the three proposals. In effect, the premium increases and outlay savings would be diverted from SMI to HI, with the general fund appropriation serving as a pass-through for the transfer. CBO estimated that these provisions would have increased the income of the HI trust fund by $66.8 billion over fiscal year 1996–2002.

Conference Agreement. The conference agreement adopted the Senate provisions with modifications. First, it dropped the SMI deductible increase completely. Second, it stipulated that the SMI premium income shifted to the HI trust fund would be the amount equal to the difference between the savings from setting the premium at 31.5 percent the savings from setting the SMI premium at 25 percent of program costs. The rest of the savings (that is, the difference between current law and a 25-percent premium) would stay in the SMI trust fund. As in the Senate bill, all income from an income-related (means testing) SMI premium would be shifted to the HI trust fund.

CBO estimated that the income-related SMI premium would increase receipts by $8.3 billion over 1996–2002. CBO estimated $45.9 billion in total new receipts from setting the basic SMI premium at 31.5 percent of program costs. CBO did not publish an estimate of how much of this total would go to the HI trust fund, but it is likely that most of the new receipts would be shifted to HI because, for most of the years in the budget window, the difference between the current law premium and a 25-percent premium is significantly smaller than the difference between a 25-percent and a 31.5-percent premium.

Deficit Impact. Shifting the flow of funds between trust funds has no effect on the deficit. The deficit is reduced only by reducing total Medicare outlays (that is, the outgo from both trust funds combined) or by increasing total income, for example, through a payroll tax or premium increase. The HI trust fund's financial condition is improved either by reducing the amount of HI outlays or by increasing the amount of income to the trust fund.

Chairman KASICH. Let me just ask you this. Dr. Kotlikoff was here a week ago, the father of generational accounting. Under the Republican plan that you vetoed, the baby born today is going to pay 72 percent of everything he or she earns over their lifetime to support this government. You vetoed that. We are now stuck at 84

percent. And you strip the generational accounting out of your general budget.

Ms. RIVLIN. I don't believe either number is a good representation of what is likely to happen. I commend you for doing something I have always thought extremely important, namely, trying to focus attention on the long-run cost of government programs and how we are going to pay for them. And we have done a good deal of that in our own budget.

But the particular accounting technique known as generational accounting has always struck me to be pretty misleading, for a number of reasons. It involves making a lot of very severe assumptions about what might happen over a very long period. And to get any number that suggests future generations will give 72 or 84 percent of their earnings to the Federal Government, one would have to assume that Congress will lose its mind.

It assumes discretionary spending levels, for example, will increase, when you know for a fact that they are now coming down. It assumes government programs cannot contribute to raising incomes in the future, that we can abolish the education system—Federal, State, and local.

I don't find it very useful to make assumptions like that, but I do feel that we should focus on long-run costs and benefits, and the material generational accounting produces is sort of interesting in that regard. But I agree with CBO, we need to do a very thorough analysis of generational accounting. While it is kind of interesting, it is very misleading and it doesn't belong in a budget document.

Chairman KASICH. Did the 1995 budget have a section on generational accounting?

Ms. RIVLIN. I think so; 1994 did.

Chairman KASICH. And—but yet, it is been stripped out now.

Ms. RIVLIN. Yes, we just didn't find it useful.

Chairman KASICH. I bet you didn't find it useful, I didn't find it useful to assign to the next generation the tax rates that are so high that the young people won't even go to work in this country.

Ms. RIVLIN. If I believed these numbers meant anything, I certainly wouldn't be advertising that the Republicans voted for a budget that imposes a 72-percent tax rate.

Chairman KASICH. Let me just tell you, it is a budget, by the way, that you folks have labeled extreme, but, unfortunately, Doctor, if we can't take the first step, we—of course, in your budget, you do virtually all the heavy lifting in the next century, which is a duck.

But if we can't even—look, we have taken a bashing from you folks because we decided to take the first step. We are not proud of the fact that we have not addressed the long-term obligations that we put on young people, but we would like to take at least the first step. You vetoed the first step.

Let me just ask you, are you folks just addicted to the current welfare program, or what is the deal? You vetoed two deals to change it? What is the situation with you folks and welfare?

Ms. RIVLIN. From the beginning of this administration, the President has been very committed to reforming welfare. He believes the important thing about welfare reform is work, moving people from

welfare to work. It is about making welfare a temporary, time-limited program.

The President's welfare reform proposal has considerable savings in it, but it does not punish children. We believe any good welfare reform proposal needs to address child care and child protection.

We have been working very hard with the Governors to come up with a bipartisan welfare reform plan. We think the Governors have made a lot of progress, but there are still some things we would like to see changed. But there should be no question about the President's leadership on, and commitment to, welfare reform.

Chairman KASICH. Thanks, Doctor.

Mr. Sabo.

Mr. SABO. Mr. Chairman, my understanding is your Medicare proposal did also transfer home health service to Part B. You suspended payment for a period of time so the premium would not be taken from either Part A or Part B, then switched it. You made recipients of longer term home health care subject to a Part B premium, which is a legitimate item of dispute.

Mr. Chairman——

Chairman KASICH. Our proposal doesn't do that.

Mr. SABO. That's my understanding of it.

Chairman KASICH. Your understanding isn't right, check it out. But, I mean, you know I will tell you that if that is the direction we are going, in either plan, then it is a sellout to the next generation, it is. Yes, it is.

Mr. SABO. There are important reforms to Medicare that need to be done. The reality is Part B historically was divided, and home health care was historically divided between Part A and Part B.

Chairman KASICH. Part B is——

Mr. SABO. Let me finish, Mr. Chairman. In Part A—I, frankly, don't think in the long term, Part A and Part B make sense, but that is how it is structured today. And there are services that are legitimately related to hospitals and there are others that are not, and that is the distinction. And we need to pay greater attention to that distinction so that services are appropriately put in Part A and Part B.

Also, I have to say that I am sort of struck with all I hear about generational accounting and I read that one of the things we are going to do on extending the debt ceiling is increase certain Social Security benefits for certain people and I am not sure how that impacts generational accounting.

Mr. SHAYS [presiding]. I can give you an answer.

Mr. SABO. No.

Mr. SHAYS. I didn't think you want one on either issue.

Mr. SABO. Alice, let me ask you. I am concerned about this crazy language over welfare reform. The reality is we desperately need welfare reform in this country. That has been an issue for years, and trying to figure out how a reformed system can move people back into work in a way that still recognizes increasing poverty in this country, increasing income disparity between the top and bottom, and variations in job markets around the country is our challenge.

As I recall, one of the major disincentives to work is a repeal of an income disregard that is in welfare programs as part of the

budget amendment that was adopted in 1981, which eliminated some of the incentives for people on WIC, AFDC income support programs and also some of the other income support programs.

What strikes me about the Governors' proposal on welfare reform is that they moved to a block grant but they substantially reduced the maintenance of effort required of States. And as I look at how that program will work, I think it is fair to say that any increase in cash payments to the recipients would end with the passage of that bill, because any increase would be clearly 100 percent State dollars, no Federal dollars, and benefits have gone up very slowly in the last 10 years.

On the other hand, I think it is also fair to say that because of the change in maintenance of effort required of States, there would be significant financial reason for States to lower cash benefits because they could do so without having to move people from welfare to work.

The program doesn't have to work. They simply can significantly reduce the State effort regardless of whether the program works or not. And it exists in a relationship with other programs, so that if States do that, the impact is for every $100 cut, it increases food stamps by $30; increases section 8 public housing costs for individuals participating in the housing program, by $30. So you have a unique combination in the Governors' plan as it relates to the family support program.

I think the proposal is probably adequate in Federal dollars. But a system is set up under that program simply to motivate the States, to cut benefits, and as they cut benefits Federal dollars aren't cut. In fact, Federal dollars go up. And the two losers would—under the way that program is structured, would be, No. 1, poor children, and second, the Federal Treasury.

So I hope as you work at revising that program to make it appropriate for congressional action, you pay particular attention to the issue of maintenance of effort by State and county governments. I find in both the welfare proposal and the Medicaid proposal that the Governors proposed, while there are some good features to them, both of them represent just a bonanza for State governments. Each has incentives for pulling money out of the programs for use for whatever purposes they want, and with no guarantee it will go to the programs involved, either for welfare reform or providing health care through Medicaid.

But, again, let me ask this question, about what has happened within the structure of streamlining the Federal Government in the last 2 years: Is Federal employment higher today than it was in 1993, or is it lower?

Ms. RIVLIN. It is lower, Mr. Sabo. By the end of 1997, the government will employ about 245,000 fewer civilians than it did in 1993.

Mr. SABO. Lower than it was——

Ms. RIVLIN. In 1993.

Mr. SABO. How does it relate to the labor force?

Ms. RIVLIN. In proportion to the size of the country's overall labor force, Federal employment has returned to a level we haven't seen since before the New Deal.

Mr. SABO. Thank you.

Ms. RIVLIN. Can I just respond to your point on maintenance of effort, because I agree with it very strongly. I think the danger is mostly in respect to the Medicaid proposal, but we are also concerned about the Governors' welfare reform proposal. While the Governors' welfare reform proposal is commendable in many ways, we are concerned that it cuts back on the maintenance of effort requirement—from the 80 percent that was in the Senate bill, to 75 percent. We would like to see that corrected, among other things.

Chairman KASICH. The gentleman from Arizona, Mr. Kolbe, is recognized for 20 minutes.

Mr. KOLBE. Thank you, Mr. Chairman.

I will ignore the chart up there that talks about the great decline in deficits. We know that in 1992, months before the Clinton administration came to office, the Congressional Budget Office was projecting declines. We also know the first 3 years of the Clinton administration projected budget deficits of $200 billion going on into infinity. And that leads me to my first question.

A year ago in this committee—I think in answer to a question from Mr. Largent, I think you said, "I do not think that adhering to a platform of balancing the budget by the year 2002 is a sensible thing to do. It is not always good policy to have a balanced budget."

Now you are singing the praises of a balanced budget, phony though it may be. What has changed in the last year?

Ms. RIVLIN. I don't remember the context of that quote. I have a strong track record of favoring deficit reduction. I may have been telling Mr. Largent that I don't think hitting zero in any particular year is absolutely necessary, but getting rid of permanent structural deficits in the budget is something I have favored very strongly for a long time. If you are able to quote something that says otherwise, I will be very surprised.

Mr. KOLBE. I guess you are like the President, 5 years, 10 years, just so long as it is never now.

Ms. RIVLIN. We are balancing the budget in 7 years. Congress made a very strong point, and we got the point; it was an article of religion here that the administration submit a budget that balanced in 7 years, specifically by 2002, using CBO numbers. We have done that.

Mr. KOLBE. Is it accurate to describe that chart that you have up there as balancing the budget? The Clinton record shows blacking everything out there. Is it accurate to describe something as a record that is 7 years hence? Wouldn't the record be what you have done in the last 3 years?

Ms. RIVLIN. I think the historical record is very strong.

Mr. KOLBE. I don't know how you project a balanced budget and call it part of your record.

Ms. RIVLIN. If you only want to take the historical part of the chart, the record speaks for itself. We have reduced the deficit from $290 billion in fiscal 1992 to $164 billion in fiscal 1995. We expect, and I don't hear any argument here, the deficit will be around $146 billion in fiscal 1996. This fiscal year is half over, so we can't be off by that much. That means the President will have cut the deficit in half in 4 years, as he said he would do.

Mr. KOLBE. Dr. Rivlin, in response to a question by Mr. Sabo, you said that the number of Federal employees has been cut, I

think you said 240,000 by 1997. How many of those are noncivilian defense?

Ms. RIVLIN. Of that number, about two-thirds are civilian Defense Department employees, and a third come from other executive branch agencies.

Mr. KOLBE. How many in the civilian side are out of RTC which has been winding down?

Ms. RIVLIN. Very few. The RTC did not have many employees. We can supply that for the record.

[The information referred to follows:]

RESPONSE TO QUESTIONS ON FEDERAL EMPLOYMENT FROM MR. KOLBE

The number of Federal employees has been cut, I think you said by 240,000 thousand by 1997. How many of these are noncivilian defense? How many in the civilian side are out of RTC which has been winding down. How many do you plan to terminate of civilian nondefense employees?

The table attached summarizes Federal employment in the executive branch for the fiscal year 1997 Budget. By fiscal year 1997, total employment is expected to decline by 244.7 thousand compared to fiscal year 1993. Of the total, defense civilian employment declines by 163.9 thousand, and nondefense civilian employment declines by 80.8 thousand.

The table summarizes the Federal Deposit Insurance Corporation and the Resolution Trust Corporation [RTC] on one line, and a specific question was about the RTC. RTC employment is expected to decline by 7.2 thousand (to zero) over the same period.

TABLE 10–1.—FEDERAL EMPLOYMENT IN THE EXECUTIVE BRANCH

[Civilian employment as measured by Full-Time Equivalents, in thousands]

Agency	1993 Base	Actual			Estimate		Change: 1993 base to 1997	
		1993	1994	1995	1996	1997	FTE's	Percent
Cabinet agencies:								
Agriculture	115.6	114.4	109.8	103.8	105.5	104.6	−11.1	−9.5%
Commerce	36.7	36.1	36.0	35.3	35.2	35.5	−1.2	−3.3%
Defense—military functions	931.3	931.8	868.3	821.7	800.0	767.4	−163.9	−17.6%
Education	5.0	4.9	4.8	4.8	4.8	4.6	−0.4	−8.1%
Energy	20.6	20.3	19.8	19.7	19.7	18.5	−2.1	−10.3%
Health and Human Services[1 2]	64.5	65.6	62.4	59.0	58.5	58.9	−5.6	−8.6%
Health and Human Services, exempt FTE's	0.5	0.5	0.5	0.3	0.3	0.3	−0.1	−28.7%
Social Security Administration[2]	65.4	64.8	64.5	64.6	64.8	64.8	−0.6	−0.9%
Housing and Urban Development	13.6	13.3	13.1	12.1	11.9	11.4	−2.2	−16.4%
Interior	79.3	78.1	76.3	72.0	70.5	72.2	−7.2	−9.0%
Justice	99.4	95.4	95.3	97.9	106.3	112.5	13.1	13.1%
Labor	18.3	18.0	17.5	16.8	16.7	17.1	−1.3	−6.8%
State	26.0	25.6	25.2	23.9	23.7	23.5	−2.5	−9.7%
Transportation	70.3	69.1	66.4	63.2	63.9	63.9	−6.5	−9.1%
Treasury	166.1	161.1	157.3	157.5	153.3	156.8	−9.3	−5.6%
Veterans Affairs[1]	227.0	229.1	227.8	223.1	218.2	217.3	−9.7	−4.2%
Veterans Affairs, exempt FTE's	5.4	5.1	5.3	5.4	5.5	5.5	0.2	3.3%
Other agencies (excluding Postal Service):								
Agency for International Development[1]	4.4	4.1	3.9	3.6	3.4	3.1	−1.3	−29.2%
Agency for International Development, exempt FTE's	....	....	*	*	*	*	....	....

TABLE 10–1.—FEDERAL EMPLOYMENT IN THE EXECUTIVE BRANCH—Continued

[Civilian employment as measured by Full-Time Equivalents, in thousands]

Agency	1993 Base	Actual			Estimate		Change: 1993 base to 1997	
		1993	1994	1995	1996	1997	FTE's	Percent
Corps of Engineers	29.2	28.4	27.9	27.7	27.6	27.2	−2.0	−6.8%
Environmental Protection Agency	18.6	17.9	17.6	17.5	18.1	18.0	−0.6	−3.3%
Equal Employment Opportunity Commission	2.9	2.8	2.8	2.8	2.8	3.0	0.2	5.8%
Federal Emergency Management Agency	2.7	4.0	4.9	4.6	3.9	4.0	1.2	43.8%
Federal Deposit Insurance Corp./Resolution Trust Corp	21.6	21.9	20.0	15.7	12.8	9.2	−12.3	−57.1%
General Services Administration	20.6	20.2	19.5	17.0	16.2	14.8	−5.9	−28.4%
National Aeronautics and Space Administration	25.7	24.9	23.9	22.4	21.8	21.2	−4.5	−17.5%
National Archives and Records Administration	2.8	2.6	2.6	2.4	2.5	2.5	−0.2	−8.5%
National Labor Relations Board	2.1	2.1	2.1	2.0	2.0	2.0	−0.1	−4.8%
National Science Foundation	1.3	1.2	1.2	1.2	1.3	1.3	−0.1	−6.2%
Nuclear Regulatory Commission	3.4	3.4	3.3	3.2	3.2	3.1	−0.3	−8.3%
Office of Personnel Management	6.2	5.9	5.3	4.2	4.0	3.6	−2.7	−42.7%
Panama Canal Commission	8.7	8.5	8.5	8.8	9.0	9.1	0.4	4.8%
Peace Corps	1.3	1.2	1.2	1.2	1.2	1.2	−0.1	−3.4%
Railroad Retirement Board	1.9	1.8	1.7	1.6	1.5	1.4	−0.4	−24.0%
Securities and Exchange Commission	2.7	2.7	2.7	2.7	2.8	2.8	−0.1	−2.2%
Small Business Administration	4.0	5.6	6.3	5.7	4.3	4.2	0.2	5.2%
Smithsonian Institution	5.9	5.5	5.4	5.3	5.3	5.3	−0.6	−10.4%
Tennessee Valley Authority	19.1	17.3	18.6	16.7	16.4	16.4	−2.7	−14.1%
United States Information Agency	8.7	8.3	8.1	7.7	7.3	7.1	−1.6	−18.6%
All other small agencies	16.1	15.4	15.0	15.1	14.8	14.8	−1.3	−8.3%
Allowance for welfare reform[3]	....	....	....	....	....	0.5	0.5	100.0%
Total, Executive Branch civilian employment	2,155.2	2,138.8	2,052.7	1,970.2	1,940.8	1,910.5	−244.7	−11.3%
Total, Defense	931.3	931.8	868.3	821.7	800.0	767.4	−163.9	−17.6%
Total, Non-Defense	1,223.9	1,207.1	1,184.4	1,148.4	1,140.8	1,143.1	−80.8	−6.3%
FTE's exempt from Ceiling	....	....	5.8	5.7	5.9	5.9	....	....
Total, Executive Branch subject to Ceiling	....	....	2,047.0	1,964.4	1,934.9	1,904.6	....	....
FTE Ceiling[4]	....	....	2,084.6	2,043.3	2,003.3	1,963.3	....	....
Total FTE reduction from the 1993 base	....	−16.4	−102.5	−185.0	−214.4	−244.7	....	....

*Less than 50 FTE's.

[1] The Departments of Health and Human Services, Veterans Affairs, and the Agency for International Development have components that are exempt from FTE controls.

[2] The Social Security Administration became a separate agency, no longer part of Health and Human Services, on March 31, 1995.

[3] This allowance is for an estimated 500 FTE's for the Social Security Administration to conduct additional continuing disability reviews.

[4] FTE limitations are set for the executive branch in the Federal Workforce Restructuring Act of 1994 (P.L. 103–226).

Mr. KOLBE. I think it is about 12,000. In any event, it is about 70 percent of your—between 70 and 75 percent of total numbers in defense in the civilian side and——

Ms. RIVLIN. About two-thirds are civilian employees in the Defense Department.

Mr. KOLBE. How many do you plan to terminate of civilian nondefense employees? Do you expect to cut in the fiscal year 1997?

Ms. RIVLIN. Specifically in 1997?

Mr. KOLBE. Well, perhaps you can supply that for the record. Maybe we can't find any there, but we are going to terminate.

Ms. RIVLIN. In 1997, there is a substantial increase in the number of law enforcement employees in Justice and Treasury Departments, and cuts in other agencies.

Mr. KOLBE. So I think, overall, the number will increase. My time is going to run out. I want to ask you one more question and it is a complicated one, to explain—I think I would sure like you to tell me how this trigger works that is going to give you additional spending in the years 2001 and 2002.

Ms. RIVLIN. It is a little complicated, but let me try to explain it. We believe the economy will do better than the Congressional Budget Office estimates and, therefore, there will be considerably better performance on the deficit. But CBO may be right. If they are, the trigger would kick in—the tax cuts proposed in the President's budget would sunset after the fifth year if they are——

Mr. KOLBE. Then the spending cuts would kick in at that point?

Ms. RIVLIN. No. If we are on the CBO track, which is slightly more pessimistic than ours, the tax cuts would trigger off after 5 years, because, at that point, we wouldn't be able to afford tax cuts and still get to balance.

But if the economy is on a better track, additional money would be generated. We would use that additional money, first, to keep the tax cuts in place. Then, if there was money left over, we would restore funds to discretionary programs. The first $20 billion, as estimated by CBO, would be available to keep the tax cuts in place; and the second $20 billion could be applied to reducing the cuts in discretionary spending.

Mr. KOLBE. The bottom line, Dr. Rivlin——

Chairman KASICH [presiding]. Time has expired.

Mr. Orton is recognized.

Mr. ORTON. Good to see you. Welcome.

I am somewhat distressed today by the lack of civility being shown by some of my colleagues. I think it is true that we can disagree without being disagreeable. It is very apparent to me that it is an election year. I would like to apologize to you for the treatment you may be receiving as a result of election year politics, but I also believe it is very nonproductive to start an intergenerational war between the children, the youth of our society and the seniors in our society.

Last year's magic bullet to balance the budget seemed to be dynamic scoring. That was trotted out, and we were going to somehow use a different scoring method, and that was going to result in bringing us balance.

This year's magic bullet seems to be generational accounting. My guess is that will be debunked similarly to dynamic scoring.

The point I am raising is that there are no magic bullets. If in fact you want to balance the budget, there are only two choices:

You can raise revenue or you can cut spending. If you want to cut spending, the way you have to do that is to reform programs—welfare, Medicaid, Medicare—entitlement programs which is where spending is increasing most rapidly.

It seems to me that the productive way to accomplish that is to try to find the areas on which there is agreement between the Congress and the White House and the administration, try to find ways where there is agreement between the Democrats and Republicans, find a solution.

I am distressed somewhat that the chairman indicated and attacked your plan for backloading the deficit reduction. I would simply make the point that in the conference report passed by the House and Senate, 73 percent of deficit reduction in the Republican conference report takes place after the turn of the century. They are doing exactly what they are attacking you for doing.

In fact, if you look at the coalition budget, the coalition budget is the only budget which really brings you down on a gradual glide path; and the differences between the coalition budget and Republican and White House budgets are the tax cuts.

In fact, if you look at the deficit reduction in the administration's final offer in the negotiations, which I think is reflected pretty closely in the current budget and the Republican final offering in negotiations, the deficits were as follows: 1996, the Republican deficit would have been 159, administration 154; in 1997, Republican 165, administration 161; in 1998, Republican 148, administration 145; in 1999, Republican 125, administration 126; in 2000, Republican 102, administration 108; in 2001, Republican 60, administration 65; in 2002, Republican, a surplus of 1, administration, a surplus of 4. That is a 1-percentage point difference in a $12 trillion budget.

It would seem to me that the more appropriate avenue for this committee to proceed down would be to attempt to work with the White House in identifying where we agree on policy reform, where we agree on targets of reduction of growth and deficit reduction, and then try to move forward with the coherent policy rather than trying to divide the generations and start lobbing grenades across the fence.

I guess I don't have a question for you other than if you would like to comment on where we have similarities and what you think the most effective approach would be to try and get an agreement. I think the public would like us to do something before next election.

Ms. RIVLIN. I would like to comment, Mr. Orton, on both the backloading charge and the prospects for a common agreement.

You are absolutely right, and I think we have a chart that shows this, there is very little difference with respect to savings being in the last couple of years between the Republican plan and the President's budget.

You are also right in saying the coalition plan, because it doesn't have tax cuts in it, has a higher proportion of its savings up front.

Having a disproportionate amount of savings at the end is inherent in any budget-cutting exercise, because you are cutting the rate of growth, and the savings accumulate toward the end of the time-

frame. Also, if you are cutting the deficit, the interest savings accumulate toward the end.

So it is not unusual for a deficit reduction plan to generate more savings as it moves along. But the coalition plan, because it doesn't have tax cuts avoids some of this problem.

But I would like to emphasize the point you made about reaching an agreement, because the President feels very strongly about it. There are differences between Republicans and Democrats about how to get to balance in 7 years. And there are different plans for how to do it, but the plans aren't very different.

When the negotiators sat in the Oval Office and talked about the plans in December and January, it was clear that there was an enormous amount of overlap. If you just take the common savings, you have nearly $700 billion of savings that are common to both plans. And the policies, while somewhat different, are similar enough so that we could come together and get it done.

That is why the President has said, "Let's just do it." Let's enact the savings that are common to both plans. Both parties can then go out and argue about additional savings or tax cuts, but at least we will have put the budget on the track to balance.

Chairman KASICH. The gentleman's time has expired.

Before we go on, Dr. Rivlin, Mr. Stenholm has some questions to submit for the record. I am sure others will give general leave to submit questions to you for the record.

Ms. RIVLIN. I would be happy to answer them.

[The information referred to follows:]

RESPONSES TO QUESTIONS ON SUPERFUND REFORM FROM MR. STENHOLM

Q. The President's budget proposes a $200 million increase for the Superfund program over the next 2 years. I am very concerned about increasing funding for a program that is considered to be a badly broken program by both the environmental and business community as well as many of us in Congress. What specific proposals to reform the Superfund program does the administration have for us to ensure that we don't continue to put scarce resources into a broken program? For example, everyone agrees that the current program has too much litigation and not enough cleanup. How would you solve that?

A. First, it is important to note that the fiscal year 1997 President's budget proposes only a slight increase for the Superfund program over the fiscal year 1995 enacted level (post-rescission), not an increase of $200 million. The administration has proposed Superfund reauthorization legislation that would fundamentally reform the program. In anticipation of reauthorization, the administration has implemented numerous reforms (through REGO II and other initiatives) that improve the program to the extent allowable under current law. Among the third set of such reforms, announced earlier this fiscal year, are many aimed at reducing litigation and the associated cost and delay. These reforms include efforts to: First, increase fairness in the enforcement process by compensating settling parties for a portion of the costs that are attributable to insolvent parties (that is, the "orphan share"); second, reduce transaction costs by adopting private party allocations as the basis for a settlement after EPA approval; third, double the number of "small party" entities—typically small businesses and individuals whose contribution to pollution at Superfund sites is small—who are protected from lawsuits; and fourth, reward cooperative parties that consistently perform high-quality work at Superfund sites with significantly reduced EPA oversight. In addition, since last summer, EPA has followed up on previously announced reforms by issuing new guidance that adopts as policy the provisions of the lender liability rule, and issued model "de minimis" settlement agreements designed to further streamline the de minimis settlement process.

I would also note that the pace of Superfund cleanup completions has been dramatically accelerated. EPA cleaned up as many Superfund sites in 1995 as it completed in the entire first decade of the program, and is working toward a total of 650 site completions by the year 2000. Over the past year, EPA removed more than

27,000 sites from the Superfund inventory (including an additional 3,000 sites in January of this year) in order to clear the way for economic redevelopment of those sites that do not warrant further Federal action.

Q. The full House has rejected—on a bipartisan basis, by over 100 votes—an amendment to increase appropriations for Superfund last summer because of the concerns that I and a large number of my colleagues have regarding this program. What has changed since last summer to convince me and other Members of this body that increasing funding is a wise use of funds?

A. Over the past 2 years, the administration's Superfund administrative reforms have focused on promoting economic redevelopment, protecting small volume contributors, streamlining remedy selection, promoting the use of allocations, and increasing the role of States. As noted above, many of these reforms were announced since last summer. The effects of other previously announced reforms are now beginning to be reflected in program decisions and actions.

Some of these reforms are aimed at controlling costs (while protecting public health) by achieving more consistency in cleanup decisions, streamlining the process to save time and money, and expanding the options available for cost-effective cleanups. Examples of such reforms include the establishment of cost-effectiveness "rules-of-thumb" and an EPA National Review Board to control remedy costs and promote cost-effectiveness in remedy selection, guidance to ensure that risk assessments are based on planned future land use, and national risk-based priority setting to select sites for funding based on the principle of cleaning up the "worst sites first."

Chairman KASICH. The gentleman from Florida is recognized for 5 minutes.

Mr. MILLER. I am over here.

You made a comment to Mr. Kolbe about the budget, that Congress "made the point and we got the point." I think that was a good statement. Because I guess last year when we presented the budget, you said you were projecting these $200 billion deficits in the future. At least we brought the rhetoric around toward—we are moving toward balancing the budget.

I am glad you made that statement, saying we have brought the focus, which is so important. We have talked about it. How many budgets have you presented in the past year? Quite a few. How many has the administration——

Ms. RIVLIN. Both sides have presented several budgets. And both sides have moved toward each other, as I was saying to Mr. Orton.

Mr. MILLER. I want to answer—as you know, Medicare is going bankrupt and there is too much political rhetoric on that issue. We both agree we have to save Medicare. No one is talking about destroying it. We all agree.

The trustee's report came out last April, talking about the bankruptcy in 7 years we are talking about, and in February it was released. And we became aware it is going to happen faster, and I guess we are awaiting the next trustee's report in April or May.

Ms. RIVLIN. May, I think.

Mr. MILLER. May. You project you are going to save Medicare for another decade. Are you talking about 10 years from now or the year 2010? Is it subject to the new data we are having to the bankruptcy?

Ms. RIVLIN. I said we would ensure Medicare solvency for at least another decade, and I wasn't more precise about that because the actuaries are still working on the information. The new trustees' report will have firmer numbers.

Mr. MILLER. You haven't presented a lot of details on your Medicare proposals. Are you expecting——

Ms. RIVLIN. All the details are in the budget, and we have legislative language which we expect to submit.

Mr. MILLER. You will be submitting the legal language as such?

Ms. RIVLIN. Yes.

Mr. MILLER. The $124 billion that you propose, the CBO scored that back in December at $97.5 billion.

Ms. RIVLIN. No, CBO scored the $124 billion about $10 billion lower, so we added another policy to make sure we got to $124 billion.

Mr. MILLER. By another decade, are you talking about 10 years from today or the end of the next decade, the year 2010?

Ms. RIVLIN. At least another decade from now, probably longer.

Mr. MILLER. The real crisis hits in the year 2010. That is when the baby boomers——

Ms. RIVLIN. That is when the baby boomers retire.

But Medicare has two problems: baby boom retirement and rising medical costs. If we do nothing, the fund will run out of money much sooner than that, in 2002 or 2001.

Mr. MILLER. Are you satisfied that doing the $124 billion is really enough to save Medicare? Is that really enough to take care of the Medicare problem?

Ms. RIVLIN. No. I think everybody recognizes that what we are talking about now is extending the life of the trust fund for a decade or more. We will need to come back to the question of Medicare's long-run future as the baby boom generation retires and as all of us, including those of us who are out ahead of the baby boom, live longer.

Mr. MILLER. Is $124 billion——

Ms. RIVLIN. The Republican plan doesn't offer a final fix either.

Mr. MILLER. How many new entitlements are created in this budget?

Ms. RIVLIN. New entitlements——

Mr. MILLER. For example, insuring the temporarily unemployed? Is there a teenage pregnancy program? Are you increasing some entitlement program?

Ms. RIVLIN. No, there is certainly not an entitlement for teenage pregnancy.

With respect to the program for extending coverage to the unemployed, we are proposing a grant to States to allow them to finance the extension of an individual's health coverage if they are temporarily unemployed.

Mr. MILLER. That is an entitlement expansion.

Ms. RIVLIN. I don't think it would count as an entitlement expansion, but——

Mr. MILLER. Are there any entitlement expansions in this program or new programs?

Ms. RIVLIN. New programs, I don't know. I would have to see whether we have anything that would qualify under that definition.

[The information referred to follows:]

RESPONSE TO QUESTIONS ON NEW PROGRAMS FROM MR. MILLER

The President's budget establishes a 4-year, capped demonstration program which would enable States to finance up to 6 months of health insurance coverage for unemployed workers and their families. Beginning in 1997, the President's plan expands Medicare coverage to include a number of preventive benefits including colorectal cancer screening, preventive injections for pneumonia, influenza, and hep-

atitis B; diabetes self-management benefits, and improved mammography benefits. These benefits would be covered until 2000 when the Congress would have the opportunity to evaluate the effectiveness of these preventive benefits in promoting the health of beneficiaries and controlling costs in the Medicare program. Beginning in 2002, the President's plan also includes a respite care benefit for families of victims of Alzheimer's disease. All of these modifications are fully paid for in the administration's Medicare package, which saves $124 billion through 2002. The fiscal year 1997 Budget also proposes health, income and employment assistance for Puerto Rico. This change is fully paid for in the Budget by changes to the 936 tax credit. There are also increases in funding for food stamps, employment and training, and child care, in the context of the administration's welfare reform proposal which saves $40 billion over the 7-year period.

Mr. MILLER. Let me ask you one last question. That is on discretionary health spending. I happen to be on that part of the committee.

I see in some of your proposals you say, substance abuse and health, 13-percent increase this year. Each of the next years ahead, you have an 8-percent decrease, 9-percent decrease, 10-percent decrease. If you keep decreasing it, how realistic is that?

If you jump it up this year and the year after that, you start these big cuts. Is that realistic or reality? I mean, other health services go 3 percent increase, 6 percent, 8 percent. These are your numbers. That's what makes us feel frustrated to have big increases then start cutting afterwards, after the election.

Ms. RIVLIN. We think funding for these programs ought to be increased, even in the face of declining discretionary spending.

But, clearly, if we are going to cut $297 billion out of discretionary spending over the next 7 years, we are going to have to make cuts in many programs. The administration hopes the things we consider priorities, especially education and some health programs, will be preserved; other things will have to be cut.

Each year, Congress will have to make decisions about discretionary cuts. We can't predict exactly where those cuts will take place. But they are going to have to be broad-based cuts if we are to achieve the goals that are in our plan, or even the more severe discretionary spending cuts in the Republican plan.

Chairman KASICH. The gentleman's time has expired some time ago. Mr. Pomeroy is recognized for 5 minutes.

Mr. POMEROY. Mr. Chairman, I thank you.

Doctor, it is very good to have you with us because we have come to know you in your position as OMB Director. I think all of us are very enthusiastic about your new appointment.

I am, frankly, surprised that you come under attack for the administration's veto for the congressionally passed budget. Apparently, there are those that want to reinstitute the debate on the plan. That was, in my opinion, a positively shameful act of Congress, one that would get $270 billion from Medicare devastated—and Medicaid.

Even the majority of Members voting for it say those cuts were way too deep: Hit student loans, giving affluent families disproportionate tax breaks, raised the tax burdens on working families. I am amazed that there are those that want to talk about that again.

Ms. RIVLIN. I am, too.

Mr. POMEROY. The fact was that wasn't required to balance the budget in 7 years with CBO numbers. The coalition budget dem-

onstrated that throughout. The budget you presented here also demonstrates exactly that.

As someone who has spent their life in economic forecasting and enjoys the reputation of being one of the Nation's leading experts in this area, it must—I don't know if it amuses you. I will say it amuses me, those that can grab onto or take a fancy to whatever is the latest academic economic forecasting methodology that happens to be bouncing around in the last year, sitting as a member of this committee, I have heard prominent committee members, not to name names, express fascination with dynamic scoring.

Frankly, I think it took pretty direct language from Alan Greenspan to back us off that one—well-developed and absolutely religious affinity for CBO scoring, a devotion to CBO scoring, now a great intrigue with the generational accounting, even though CBO says that the methodologies just aren't there to support, it is kind of to me—if an economist out there somewhere—I am under tremendous incentive to develop a new forecast methodology, maybe I would get to appear before my own congressional hearing before the Budget Committee.

I want to talk a bit about the charge that this is a backloaded budget. I would ask the staff to put up the backloading of the budget that you had during the chairman's comments. By our reckoning, Director Rivlin, the backloading is essentially identical under the GOP plan and the President's plan, as involved in a 7-year timeframe.

The President's plan, so much criticized this morning, deals with a 24-percent deficit reduction in 2001, a 38-percent in 2002; the GOP plan, 24 percent in 2001, identical, and 37 percent deficit reduction in 2002, for a grand difference of 1.6 percent in 2002. Is that difference, 1.6 percent in 2002, of such a magnitude that it would distinguish the plans in this respect?

Ms. RIVLIN. I wouldn't have thought so; they look virtually identical to me, as this chart indicates.

Mr. POMEROY. Is that chart not available, Mr. Chairman? You used the chart during your presentation.

Chairman KASICH. It is my chart.

Mr. POMEROY. You want to take your charts and go home, is that it?

Chairman KASICH. I don't want to take my charts and go home, but the gentleman wants to mischaracterize stuff. Bring your own charts.

Ms. RIVLIN. This chart compares our budget with the last Republican offer.

Mr. POMEROY. Essentially identical. But let's talk beyond the 7 years and talk about what happens then.

Now, is there a distinction in the plans as regards to years 8, 9, and 10?

Ms. RIVLIN. Yes, I think there is, particularly on the tax side. We have been struck by the fact that while the tax cuts in the Republican bill result in some revenue losses in the first 7 years, the revenue losses explode after the seventh year. That is particularly true of the Republican capital gains tax cut, which costs $47 billion over the first 7 years, but $30 billion more over the next 2 years.

Mr. POMEROY. As you look at the backloading dimension of that, let's say years 5 through 10, the most distinguishing feature, it is years 6 and 7, where they are substantially identical; but the years after that the GOP plan hemorrhages, the budget throws it out of the balance; is that correct?

Ms. RIVLIN. That is correct. The revenue losses in the Republican plan increase rapidly in the 9th and 10th years.

Mr. POMEROY. Final question: After all of the strong statements out of Congress to get the administration to the table in the 7 years, CBO-scored plan, now that the administration is there with the 7 years, CBO-scored plan, the coalition is there with meeting the same terms, isn't there an awful lot of common ground and can't we make an awful lot of headway toward a balanced budget? That is my final question.

Ms. RIVLIN. Yes, I believe we can make headway toward a balanced budget. There is nearly $700 billion in savings over the next 7 years that are, for the most part, common to both plans. If we could sit down in a civilized way and say, "Let's adjust our policies so we can achieve these savings," then I think we could balance the budget and everybody could go home to get reelected with the feeling that they had done something.

Chairman KASICH. I would say to the gentleman, I was trying to dig the chart out for you there in the spirit of bipartisanship, it is being printed.

Mr. POMEROY. Thank you.

Chairman KASICH. The gentleman from Michigan is being recognized.

Mr. SMITH OF MICHIGAN. I have so many questions I want to ask you. Let me start out with the possibility of how you might react to a question concerning the gold standard. Is it reasonable for us to consider some kind of indexing of the dollar to gold as far as looking at some of the arguments going back to the——

Ms. RIVLIN. I don't think I should get into Federal Reserve-type questions in this hearing. With all due respect, I have to go before the Senate Banking Committee to do that.

Mr. SMITH OF MICHIGAN. As I read this budget, compared to the Republican balanced budget proposal, there are two figures that seem to really be outstanding in terms of tax and spend. There is $232 billion more taxes in your proposal than in the Republican proposal, and I see $357 billion more spending in your proposal as compared to the Republican proposal. So I am nervous about the tax and spend situation.

I looked up the testimony from 3 years ago, and Mr. Panetta said that under the plan at that time, the deficit would be, and I quote, "headed where it should be, and that is a $70 billion deficit by the year 2003."

And I just want to say that it seems like we have done considerably better than that. In fact, 2 years ago there was and continues to be the argument that it is reasonable to borrow for investment spending. And now I think since this new Congress has come in, there is a general attitude difference that balancing the budget is reasonable and is the thing to do if we care about future generations.

Do you agree to that?

And my impression is you always have sort of held that belief.

Ms. RIVLIN. The President has expressed himself very strongly on that point. We want to balance the budget, and we have a plan to do that; now we are talking about how to do it.

Mr. SMITH OF MICHIGAN. Let me ask you a question that is dear to my heart, and I think the chairman's also, and that is the question on transportation going off-budget. Alan Greenspan, Chairman of the Federal Reserve, wrote recently that taking the transportation funds off-budget would raise, and I am quoting this, "the risk that resource trade-offs would be a common occurrence and could engender citizens in the financial markets and the public at large about the commitment and ability of the government to control spending."

I would like to get your feelings on taking transportation off-budget. But also in reading of the book that you wrote, I am impressed that you thought that might be reasonable. Specifically what would you think of really taking it off-budget and leaving those tax dollars at the State level to start with, except for some variable fudge factor?

Ms. RIVLIN. To answer your first question, even if Mr. Greenspan had not said this, I would strongly agree—taking the Transportation trust fund off-budget is not a sensible thing to do. Budgeteers generally believe that anything the Federal Government does should be on-budget, where everybody can see it and resource trade-offs can be made across programs. I think that is a very clear position, and I have held it for a very long time.

In my 1992 book, which the chairman referred to earlier, I did suggest that, as we look ahead, we need to make some choices about what the Federal Government should and should not do. Federal transportation programs are possible candidates for turning over to the States. That is not a Clinton administration position, but I think it is something we ought to be thinking about.

Mr. SMITH OF MICHIGAN. At this stage, you can say what you think is right for future generations. I am somewhat troubled in this budget, though, that we seem to be going the other way as we add additional mass transit funding. You call for increased fixed rail starts, increased subsidies to Amtrak. Can you give me a justification for that?

Ms. RIVLIN. Those are things that we think, relative to other things in the budget, are in the Federal purview and really need to be done. The Federal Government has supported mass transit, and it is an important tool for relieving traffic congestion, especially in cities. We have supported increases in those funds.

Mr. SMITH OF MICHIGAN. Give me your thoughts on what Bastiat called "legalized plunder." Give me your thoughts on the momentum that is building for the idea that if you have more money, you should be taxed more. How do we proceed, in your mind, with the best tax policy in terms of taxing the rich?

My time is up.

Ms. RIVLIN. Our budget does not contain any proposals for raising income taxes. We have proposed a tax cut, but it is focused on people who need it most—young families raising children, people who want to invest in themselves to get a higher education.

Mr. SMITH OF MICHIGAN. Thank you.

Just point out a substantial fee increase in FAA.

Chairman KASICH. The gentlelady from California is recognized.

Ms. ROYBAL-ALLARD. Thank you, Mr. Chairman.

And welcome, Ms. Rivlin, and congratulations on your appointment. Certainly, as you know, the income inadequacy between the upper 20 percent and the remaining 80 percent has widened considerably over the last 20 years. How will the administration's balanced budget plan help change this income distribution pattern and how does it compare to the Republican budget that the President vetoes?

Ms. RIVLIN. You are quite right in pointing out that one of the most worrisome things that has happened in our economy is the increasing income disparity. One of the things we can do to eliminate this is to increase our emphasis on helping low-income people, particularly low-income children, acquire skills that will enable them to earn more in the future.

The administration has emphasized Title I of the Elementary and Secondary Education Act, Head Start, and various training programs to help people acquire skills and earn more money. These programs are very much an issue. The Republican budget cuts them back. We think they are very important, and they are part of the way in which we can address this very serious problem, where a group in the population is falling behind while more affluent people are doing better.

Ms. ROYBAL-ALLARD. Last year, the Republican budget plan cut the EITC, and I believe they are calling it corporate welfare. Will cuts to the EITC further widen this income inequity pattern, and can you explain what the administration's policy is with regard to the earned income tax credit?

Ms. RIVLIN. We think the earned income tax credit is one of the important tools in making work pay, in making work more attractive than welfare, and in making sure people who work hard for low wages get a little more. So, in our 1993 plan, we increased the earned income tax credit, a program that has longstanding bipartisan support.

The Republicans want to cut EITC. In response to some concerns, we have tightened up on EITC compliance, but we do not want to cut EITC.

Ms. ROYBAL-ALLARD. Can you explain what that answer is, how you tightened up on that?

Ms. RIVLIN. We gather more information from the EITC claimants about their dependents. For example, we ask them to provide us with Social Security numbers for their dependents.

Ms. ROYBAL-ALLARD. Thank you.

I yield back the balance of my time.

Chairman KASICH. I recognize the gentleman from Wisconsin, Mr. Neumann.

Mr. NEUMANN. Thank you, Mr. Chairman.

I have a couple of questions for you.

Let me just start with Head Start, since that seems to be a topic we are talking about this morning. Are you familiar—if you can't answer these, I would ask you to submit it to the record—how much has that program's spending increased, on a percentage basis from 1989 through today?

Ms. RIVLIN. I can't give you an exact answer, but I will supply it for the record. We are, however, very proud of the considerable increase we provide for Head Start.

[The information referred to follows:]

RESPONSE TO QUESTIONS ON HEAD START FROM MR. NEUMANN

Table 1 shows actual and projected appropriations for the Head Start Program, 1989 to 1997. Table 2 shows actual and projected enrollment figures for those same years. As noted, growth in the appropriation outpaces participation growth. There are three major reasons for this disparity:

First, some of the appropriations increases are due to adjustments for inflation. When one compares real increases in the appropriation (last column in Table 1), the disparity between the growth in the appropriation and the growth in participation reduces sharply.

Second, some increases are also due to quality investment funds, mandated by the Head Start reauthorization to equal at least 25 percent of all real funding increases. While these funds do not result in any enrollment increases, they do help to assure that children and families in Head Start are receiving quality services. Some of the areas in which quality funds have been used are in improving staff salaries. Teacher salaries, for example, have increased to almost $17,000 per year. Funds are also used to hire needed staff, such as family workers, which allow Head Start programs to be more responsive to the needs of the families they serve. Other improvements have been made in the areas of facilities, training, and classroom supplies and equipment.

Third and finally, appropriation increases are due to extended services (that is, more full-day, full-year Head Start slots; extending hours of service to better help working parents) which provide fuller service to the same number of families.

Head Start quality investments have laid the groundwork for further expansion of the Head Start Program in a manner which will assure the continued provision of quality services to all enrolled families. Thus, the President's funding increase request for fiscal year 1997 will allow almost 40,000 new children and families to be served by the Head Start Program over the fiscal year 1996 policy level.

TABLE 1.—HEAD START PROGRAM SPENDING INCREASES ON A PERCENTAGE BASIS FROM 1989 THROUGH TODAY

[Dollars in millions]

Year	Congressional appropriation	Nominal percentage increase over previous year	Nominal percentage increase over 1989 actual	Real percentage increase over 1989 actual[1]
1989 Actual	$1,235			
1990 Actual	1,552	25.7	25.7	20.5
1991 Actual	1,952	25.8	58.0	45.5
1992 Actual	2,202	12.8	78.3	59.4
1993 Actual	2,776	26.1	124.8	96.3
1994 Actual	3,326	19.8	169.3	130.7
1995 Actual	3,534	6.3	186.2	141.0
1996 Policy	3,631	2.7	194.0	142.3
1997 Request	3,981	9.6	222.3	159.9

[1] This figure was calculated using actual fiscal year data for fiscal years 1989–1995 and the President's Economic Assumptions on GDP for fiscal years 1996–1997.

Mr. NEUMANN. Would you also include with that response the percent of increase in number of students? It is my understanding you have approximately a 183-percent increase in spending, with the corresponding increase in the number of students served about 39 percent, while inflation was about 26 percent over that same period of time. And I guess I would like also in that response some sort of explanation why we would see, if those numbers do bear out to be true, I would like some sort of a response as to why we don't see that kind of significant increase.

[The information referred to follows:]

TABLE 2.—HEAD START PROGRAM ENROLLMENT INCREASES ON A PERCENTAGE BASIS FROM 1989 THROUGH TODAY

Year	Enrollment	Percentage increase over previous year	Percentage increase over 1989 actual
1989 Actual	450,970		
1990 Actual	540,930	19.9	19.9
1991 Actual	583,471	7.9	29.4
1992 Actual	621,078	6.4	37.7
1993 Actual	713,903	14.9	58.3
1994 Actual	740,493	3.7	64.2
1995 Actual	750,700	1.4	66.5
1996 Policy	756,900	0.8	67.8
1997 Request	796,547	5.2	76.6

Ms. RIVLIN. I do know something about that. We are increasing the number of Head Start opportunities. Our budget will enable another 46,000 children to participate in Head Start, for a total of 800,000.

When the President took office, he found that Head Start needed to be improved: it didn't reach enough of the children who needed it, teachers were very underpaid, and the program's quality was not as good as it could be. So, in addition to expanding the number of Head Start opportunities, we have increased the pay of Head Start teachers to make it comparable to what regular public school teachers earn—they were far below that—and increased program quality, including health services and other services to children.

Mr. NEUMANN. Second, I would like to get into it very briefly, a topic that is near and dear to a colleague of mine. Mr. Roth continually talks about the English language being adopted on a nationwide basis. I am wondering if we couldn't adopt in Washington, adopt the English language.

Ms. RIVLIN. That is a good idea.

Mr. NEUMANN. In Washington, I don't think we speak English in Washington, because I heard again this morning, and I was hoping when I came to Budget Committee I wouldn't hear this discussion, I heard "cuts in Medicare" even though it is going up $4,800 per person to $7,100 per person.

Ms. RIVLIN. Savings in Medicare.

Mr. NEUMANN. I would sure like to see them start speaking English. If I offered someone a pay cut from $4,800 to $7,100 per year, they would jump at the chance. Same with Medicaid, the increase is ranging 33 percent in the Republican plan. Student loan availability is increased approximately 50 percent under the Republican plan. And I would sure like to institute Toby Roth's idea here in Washington to start using the English language.

Ms. RIVLIN. Congressman, if I may, I think it is important to speak English and talk about savings transfers rather than cuts, but if we were to hold the dollars level in Medicare, services would be cut significantly and your constituents would recognize that very quickly.

Mr. NEUMANN. In all fairness, I have a very difficult time understanding that concept as well, because when we have a 7-percent spending increase, we have spending rates increasing at two-and-one-half times the rate of inflation. You will have to forgive me if I have a very difficult time, how do we explain to people why, when

the reimbursement rates increase at two-and-one-half times the rate of inflation on a per-person basis, we are not able to provide at least the same services?

In particular, I have a hard time understanding that, since I come from the private sector where we are forced to deal with costs and forced to deal with revenues and make them match up, as opposed to the Federal Government. In the private sector, we are able to bring the cost of insuring people down at the same time the government isn't able to do it.

I would like to move on to another area, if that was OK?

Ms. RIVLIN. I thought that was a question, but apparently it wasn't.

Mr. NEUMANN. Another thing that was done in this committee last year, and I think it is important that we reinstitute the discussion in that area; if I understood what you said earlier in this testimony, I believe you said that if there is a surplus at the end, that that would trigger additional spending in the discretionary area. Am I understanding that correctly?

I would like to suggest to you with a $5 trillion debt currently hanging over our head and in a generation spending close to $6 trillion by that point in time, rather than triggering additional spending, we should be looking to reduce the size of the all-burdening debt that we are about to pass on to our children.

I would like to initiate at least a thought pattern here in this room at the very least, that we start thinking about reducing the size of this debt. Last year, I am happy to say, this committee did adopt an amendment that after the seventh year, Federal spending would be controlled by looking at the rate of revenue growth and holding spending to a rate lower than revenue growth, so we can start paying this back down to what I would consider historically acceptable levels. Take the dollars we had outstanding from 1960 to 1980, and adjust it for inflation. But, at any rate, to do something to start paying this debt back.

Now, to the testimony this morning, I would like to encourage a thought in the direction that if we do get to a balanced budget and in fact we see a surplus, we use that surplus to reduce the burden on our children as opposed to spending it in different areas.

Ms. RIVLIN. That would be a very legitimate conversation for Congress to have. I hope we are all around when we are worrying about what to do with the surplus.

Chairman KASICH. Doctor, we have to vote at the end of this vote, a 5-minute vote and then back here. I would ask you to stay so we can then get you out of here. We don't need to be there, so we will be back very soon, and we will get you out of here.

Ms. RIVLIN. That is fine, Mr. Chairman.

Chairman KASICH. Thank you.

[Recess.]

Chairman KASICH. I recognize Mr. Largent for 5 minutes.

Mr. LARGENT. Dr. Rivlin, thanks for coming back this year. I don't envy you coming here and testifying before this committee.

I had a couple of questions that I wanted to ask you. First of all, there was some reference to the quote that you made last year to a question that I asked you. And I do remember that. The first

question I asked was if you personally adhered to a written budget, and you said you did not.

The second question I asked was don't you think it is a good idea for the Federal Government to get on a glide path to a balanced budget?

And the quote that was given was, "I do not think that adhering to a firm path to a balanced budget by 2002 is a sensible thing to do."

And then you went on to say, "it is not always good policy to have a balanced budget."

And I don't argue with that. In fact, Dr. Tyson was here and said the same thing. Her words were that a balanced budget in this administration was not a high priority. That is what she said. And that is fine.

Ms. RIVLIN. I don't agree with that. I don't want to subscribe to that at all.

Mr. LARGENT. OK.

Well, one of the things I did want to ask you about is the EITC. Are you familiar with the proposals that we made on EITC?

Ms. RIVLIN. Yes, in general terms. The Republican proposals would cut back the increases we put in place in 1993.

Mr. LARGENT. Well, that is the bottom line, but I am talking about the policy difference that effectuated those changes. Are you familiar with what the policy changes were?

Ms. RIVLIN. Cutting out the EITC for childless couples was one.

Mr. LARGENT. Exactly.

Ms. RIVLIN. And reduction in the phaseout rate was another.

Mr. LARGENT. Right.

But also an inclusion of investment income, unearned income as well. So that couples who are filing for EITC, even though their wages, salaries, tips, and so forth, does not exceed whatever the numbers are, their investment income, may mean they could be making $50,000 a year through investment income and still qualify for earned income tax credit. That was one of the policy changes that was made as part of our budget.

Ms. RIVLIN. That is right. And we agree with that.

Mr. LARGENT. Is that included in your budget?

Ms. RIVLIN. Our budget includes changes for disallowing certain kinds of income. An earned income tax credit should be an earned income tax credit, right?

Mr. LARGENT. Exactly.

One of the comments that you made this morning was that the earned income tax credit has enjoyed broad bipartisan support, and I agree with that. In fact, I believe that one of our Republican Presidents was one of the strong advocates of beginning the program.

Ms. RIVLIN. That is right.

Mr. LARGENT. And I agree with trying to help those people that are actually trying to help themselves. But the idea behind the earned income tax credit—and I will leave it at this, because I want to ask you a question about education—was that we were trying to help families. That was the point. So one of the policy changes was to apply the earned income tax credit to couples with children.

But anyway, I want to ask you an education question because there has been a lot of talk about that.

Dr. Rivlin, in your own book, "Reviving the American Dream," one of the lines from your book says: "Making education more effective will take parents who care, committed teachers, community support, and accountable school officials."

Now, in my mind, that doesn't cost any money to Washington, DC, to do those four things. An education President can help focus media attention on schools, but he risks diluting State and local responsibility by implying that Washington can actually produce change.

I could not agree with that statement more wholeheartedly. But I noticed that in your budget we are actually increasing the Department of Education discretionary spending by 7 percent, and then I am also looking here and having read portions of the President's report on "Vision of Change," where he advocated eliminating or at least consolidating Perkins grants, supplemental grants and work/study programs.

He eliminated those in the 1995 budget, but now this year in the budget he begins again to fully fund supplemental grants, Perkins, capital contribution and proposes an increase in work/study programs. I am wondering what the contradiction is there?

Ms. RIVLIN. I won't claim we have always been consistent, but I think the President would agree that the most important thing in improving education is what parents and local communities do.

But the Clinton administration also believes the Federal Government should play a role in facilitating change. It should focus particularly on low-income and disadvantaged kids. For that reason, we have emphasized Head Start; Title I of the Elementary and Secondary Education Act; and Goals 2000, which helps States set their own standards and improve their own education systems.

I don't think that is inconsistent with the view that the Federal Government should play a limited role in education. The main action has to be at the local level, working in conjunction with parents and State officials. Everybody agrees with that. The question is: how much can the Federal government help, around the edges, to promote change and higher standards?

On work study, I don't remember exactly what we did in 1993, but right now we believe the Federal Government should help with Pell grants and student loans, and we believe the work study program is an important tool for helping students get through college.

Mr. LARGENT. Thank you, Dr. Rivlin.

Mr. SHAYS [presiding]. Dr. Rivlin, I happen to think that we are very far away from an agreement because the White House describes, when we want to make a savings in Medicare of $168 billion, you guys call it a cut. And when you want to make a savings of $124 billion, you call it a savings. And I have a hard time understanding what the heck the difference is of your trying to save $124 billion and our trying to save $168 billion in terms of why one is a cut and one is a savings.

Ms. RIVLIN. I would not use different words to describe those.

Mr. SHAYS. Are you cutting Medicaid under your plan?

Ms. RIVLIN. We achieve savings in Medicaid, compared to what Medicaid spending would otherwise be, and so do you.

Mr. SHAYS. So, would you please stop calling what we do a cut, if you think you have got to be fair in the dialogue?

Ms. RIVLIN. I would accept that. I think both plans, in different degrees, achieve savings from what would otherwise be spent on Medicare and Medicaid.

Mr. SHAYS. That is fair, and under that basis we can have a more meaningful dialogue.

My trouble understanding is how you could describe an earned income tax credit of $19.9 billion going up to $25 billion as a cut; the School Lunch program going from $5.2 billion to $6.8 billion as a cut; the Student Loan program going from $24 billion to $36 billion as a cut; Medicaid under our plan originally going from $89 billion to $127 billion as a cut, it will be going higher; Medicare going from $178 billion to $289 billion, you continually call it a cut.

The President continually calls it a cut, and then you say we are not that far apart. And we are that far apart if you call it a cut. Only in this place when you spend more money do people call it a cut.

What I would love to know is your sense of what we save in the first 4 and 5 years in terms of the overall deficit reduction. My number is that you save 34 percent. You reduce the deficit 34 percent in the first 5 years, and then 66 percent in the last 2; is that accurate?

Ms. RIVLIN. Not quite. I think both plans have about 60 percent of the savings in the last 2 years.

Mr. SHAYS. Would you just tell me why 60 percent—I am not talking discretionary now.

Ms. RIVLIN. I think both plans have about 60 percent in the last 2 years, for the same reasons. One reason is that cuts in entitlement program growth rates accumulate. You cannot do it all at once, and if you are cutting a rate of growth, the savings accumulate in a fashion similar to compound interest.

Mr. SHAYS. Your plan will give 164, to 158, to 164, to 150, to 126, to 109, to 62, and then minus 8. Under our plan it goes from 164, 151, 159, 127, 97, and the last 2 years 73 and 34.

I compare your number in year 2000, which is 109, to ours 73; your number in 2001 is 62, to ours of 34, and that is not the same. And you are a respected economist. You are an honorable person, and it simply isn't the same.

Why do you do that? It is a cut when we want to save, but it is a savings when you want to cut or save. And then when we have different numbers, you say it is the same. Why?

Ms. RIVLIN. I cannot follow what you are talking about. I have said that when you are reducing a number which would otherwise be growing, you can call it a savings. I think that is true of both plans. I am not arguing with that.

If I have used the word "cut" in different sense, it refers to cutting back on what otherwise would have been spent.

With respect to the backloading question, we have run those numbers several different ways and they all come out about the same. If you are looking at the proportion of the total savings that occur in the last 2 years, both plans have about 60 percent of those savings in the last 2 years.

Mr. SHAYS. Is your plan in the year 2000 a deficit of $109 billion? The answer is yes. Is your plan in the year 2001, $62 billion? The answer is yes. Under our plan, it is 73 and 34. Those are different numbers to me.

My last point relates to Mr. Pomeroy.

Mr. Pomeroy, I tell you, I am outraged. I am outraged with the generational transfer and I cannot be calm about it. We are screwing our kids. They are going to have to pay 60 to 70 percent of all their taxes in future years because of what we are doing and what past Congresses have done. Republicans and Democrats. I put us all in the same picture.

What makes me particularly angry is you allow the premium for Medicare Part B to go from 31.5 percent to 25. We have seniors this year who are paying less this year than they did last year. Is that a responsible thing to do when we need to put more money in both Medicare Part A and B?

Ms. RIVLIN. We thought that holding the premium at 25 percent of the cost of Part B——

Mr. SHAYS. What do you mean "holding?" You drop it. It was 31. That is the term: Dropping it. You think dropping it from 31 to 25 is a responsible thing to do to help save Medicare and Part A and B?

Ms. RIVLIN. We did not think it was necessary to load more costs on seniors to protect the Medicare Part A trust fund. We wanted to protect the Medicare Part A trust fund, we all want to do that. But, increasing the premiums on Part B does not help us achieve that goal.

Let me come back to the numbers you were citing earlier, because I didn't know what they were. Regarding the deficit numbers, I was talking about the latest Republican offer. You were apparently talking about the reconciliation bill, which CBO has rescored differently. I believe you were talking about the original scoring.

Mr. SHAYS. I am talking about how CBO scored our plan. I just want to compare apples to apples. Your latest and our latest. It is not fair to take your latest and take our earlier one.

Ms. RIVLIN. I was talking about the two latest offers as scored by CBO, and they are very similar in terms of backloading.

Mr. SHAYS. I do have the chair, but we can close if neither Member has another comment. And if you have a comment, I will match it. So, I will time you.

Mr. SABO. Just so we are clear, your chart there reflects the latest Republican offer and your plan?

Ms. RIVLIN. That is right.

Mr. SABO. And the backloading there is virtually identical?

Ms. RIVLIN. That is right.

Mr. SHAYS. No, the bottom line is this is not CBO scored. This is your interpretation of your numbers.

Ms. RIVLIN. No, this is CBO scored, but it isn't the original reconciliation bill.

Mr. SHAYS. Dr. Rivlin, you are a very fair person. Please explain exactly what that is.

Ms. RIVLIN. That is our budget and the Republican plan offered in January as part of the negotiations, as scored by CBO.

Mr. SHAYS. Did CBO score our latest plan?

Ms. RIVLIN. That is my understanding.

Mr. SHAYS. It is not my understanding. So it is just interesting. Do you have a comment?

Mr. SABO. No, but I just think it is a comparison of the latest, all the way through. Your plan and the administration's would be very close on backloading. There are many of us who prefer not to backload and think that the reasonable way to balance the budget is not dig a hole deeper and have a tax cut to start with. That results in a more steady decline of the deficit and more interest savings, and that is part of the disagreement around the Congress.

Your plan as scored by CBO at the point in time that it passed the House, and CBO has revised scoring several times, but when it passed the House, under CBO scoring, your deficit in 1997 was significantly higher than it was in 1995.

But let me get this; all of a sudden, we are talking about these 72 and 60 percent rates of taxation, which I think overstate what we should be doing. And one of the things we should be doing is some long-range planning and looking at implications of the budget for the future.

But these assumptions that somehow the Federal Government is going to take 70-some percent or 80 percent of GDP in taxes, is just off the wall. Isn't it true that historically Federal resources have never gone—rarely have gone above 20 percent of GDP?

Ms. RIVLIN. Federal spending as a percentage of GDP?

Mr. SABO. Not Federal spending. Part of our deficit problem is that Federal spending has gone above. But revenue——

Ms. RIVLIN. Revenue has been constant for a very long time at about 18 or 19 percent of GDP.

Mr. SABO. Occasionally, in 1981, I think it was slightly over 20 percent, and then the tax cut brought it way down. Is it not true that also currently if we do nothing, no tax increase, no tax cuts, revenues as a percentage of GDP actually declines?

Ms. RIVLIN. Yes.

Mr. SABO. Without a tax cut?

Ms. RIVLIN. It would remain fairly constant, but it would decline.

Mr. SABO. It is above 19, but it is on the downward slope of GDP, and the reality is with no tax cut, total tax resources actually slightly declines as part of GDP.

Ms. RIVLIN. Right.

Mr. SABO. I thank you.

Ms. RIVLIN. Although we are not fans of the generational accounting methodology, we have, in the analytical perspectives part of our budget, run those numbers out through 2050.

One doesn't have to believe those figures are exactly right, but I think it has been a useful exercise to look at those projections over a very long period. We found that instructive, and I commend it to you.

Mr. SHAYS. Mr. Kasich.

Chairman KASICH. Thank you, Mr. Chairman.

Let me just ask, whether, Doctor, you take issue with the CBO and the GAO's belief that the deficit is a sleeping giant that just over time, either when the economy slumps or these entitlements experience a period of rapid growth that, we are—that the growth,

potential growth in deficits are paralyzing for the country? That was their testimony based on the current projections.

Ms. RIVLIN. I believe that we ought first to get the budget on a track to balance over the next 7 years. If we enact any plan that would do that, we will have done a good thing permanently. We will have reduced deficit projections as we go into the next century.

But the demographics will hit us hardest in 2010 and beyond. We will then be faced with bigger deficits, and we will have to deal with that.

If we can hold Federal spending at the levels that would be projected if you ran our budget plan out for several decades, we will have solved a very large part of the problem. But is that realistic? It would reduce discretionary spending to a level that most people would consider inadequate. Under that scenario, discretionary spending levels, which have come down a lot already, would fall by another 5 percent of GDP. The question is: how much do we want to hold down Federal spending in the future while still doing all the things people expect the Federal Government to do?

Even if we do get to balance in 2002, this will be an increasingly urgent question as we face the demographic realities of the 21st century.

Chairman KASICH. What we have is assuming that you have eliminated the cost drivers from entitlements, which I don't believe you have, but even if you assume the best case, the prospect of higher deficits or higher levels of taxation based on the level of government that we currently have, projects into the 21st century much higher tax rates or more larger debt.

Ms. RIVLIN. It depends on what Congress does. I don't think Congress is going to raise tax rates astronomically. They never have, and I doubt they ever will. I think Congress will cut back on spending rather than raise tax rates.

Chairman KASICH. But there has been no history of that, except for the last budget, which you vetoed.

Ms. RIVLIN. The history of Federal revenues is that, as a percentage of GDP, they have been rather constant for a very long time. I don't expect they will——

Chairman KASICH. I am talking about these projections. All the people that are looking at the data are saying the same thing. That deficit is going to balloon. That you are going to have higher deficits or you are going to have higher rates based on the level of government that we have currently.

And secondly, that the kind of decisions that we are making in the government, which frankly transfers money from savers to spenders, is contributing to our low savings rate and our stagnant wages. You don't take issue with any of that, do you?

Ms. RIVLIN. I think everybody is saying pretty much the same thing. That is, we got into a bad situation in the 1980's by running up big structural deficits. We are now struggling to get those down. But even if we do that, and I think we are on track to doing it with our budget or your budget, we are going to have a demographic problem in the next century as our population ages. I am not sure how we are going to solve that problem.

Chairman KASICH. But how can you even—how can you believe that you can solve that when you take the fastest-growing pro-

gram, two fastest-growing problems: earned income tax credit, which you bashed us for wanting to change, or Medicare, where over the next 7 years you only have savings of $124 billion, how does that give you any confidence that into the next century we are prepared to meet the challenge of the next century?

Ms. RIVLIN. I think we have a big challenge in front of us right now in balancing the budget, and we will be faced with other big challenges in the next century. We have got to work together to solve those problems. Bashing each other doesn't help.

Chairman KASICH. Right. So if we have a Medicare plan that is designed to slow the growth, and to begin to make a step to give relief to the next generation who are going to have somewhere in the vicinity of rather than a $5 trillion national debt, a $12 trillion national debt, why would you folks engage in the demagoguery on Medicare?

Ms. RIVLIN. Our Medicare plans started out very differently. You started out wanting to save $270 billion. It has now come down to $168 billion versus our $124 billion. Is that a big difference? Well, it is not a huge difference. I think we can find a way to come to an agreement within that set of numbers.

Chairman KASICH. If we have gone from 270 to an offer that was 168, and you were at 124 and you are still at 124——

Ms. RIVLIN. We were at 100 at some point.

Chairman KASICH. No, you were at 124, back to 100, I don't know where, but I mean you have not moved at all, plus your policies are such where you are not going to slow the engine. In fact, your greatest change is to transfer money out of the trust fund. I mean, if you agree that the challenges of the next century are enormous, then why don't we put the children first and stop the demagoguery which puts the children farther behind the 8-ball?

Ms. RIVLIN. I am not demagoguing. I am saying what the President is saying, which is, "Let's get on with it." We have some differences, but let's sit down and at least pass the common savings. Let's legislate the $124 billion. If you want $168 billion, we can talk about it later, but let's at least get the $124 billion in place.

Chairman KASICH. Well, you see the problem with that is that we are at 270 and then we come to 168, and you are at 124, and frankly, that is what this town has a history of. Let's just take the best we can get, even though it is not good enough to send any signal to the young people of this country that they are going to have a future, and by the way, we will still run the Medicare program out of the Health Care Financing Agency in this town, and we will not provide seniors to make choices.

It is more than just the numbers, but the numbers themselves—124 is—that is looking at young people and just saying, we failed you one more time. I am tired of failing young people in this country.

Ms. RIVLIN. I don't think we are failing young people in this country. But the best way to deal with this problem is to solve as much of it as we can right now. If you then want to go out and say we only saved $124 billion and it would be better to save $168 billion, that is a very good election issue. Go ahead and do it.

Chairman KASICH. No, you see, Doctor, the problem with all of this is that we have been demagogued because we wanted to meet

the challenge. And then we all admit that the next century the challenge is so daunting we don't know how we are going to solve it.

And what I am suggesting to you is why don't you recommend to the President that he take the 168, in fact, and with our policy, and then we can reach agreement on Medicare, but to say that we can only do 124, when we have a tidal wave coming—we are going to go for 7 years and we are going to delay facing the tidal wave that is going to not only wreck the system but destroy the young, and I think that is wrong. I think that is wrong.

Ms. RIVLIN. The President has indicated that he would very much like to sit down again with the Republican leadership and work out a compromise that would lead us to a 7-year balanced budget. The Republican leadership that walked away from that.

Chairman KASICH. Well, look——

Ms. RIVLIN. I hope everybody gets back to it so that we can work out a compromise. The differences are not huge. It is true, the two sides have some policy differences. For example, in our Medicare plan, we give a lot more choices to seniors, but we exclude some of the choices that you think are good ones. But we could at least come to an agreement on the things that would make the plan better and then argue about the rest.

Chairman KASICH. Well, but you see you don't give the fundamental changes. You don't change the payment system. You link it all to fee-for-service. You empower HCFA. You will not let people be able to make choices on medical savings accounts.

It is really—this is what it really comes down to. And why we can't reach an agreement is that, frankly, you, whether it is welfare, whether it is Medicaid, whether it is Medicare or whether it is taxes, you don't trust people in the country to make choices.

Ms. RIVLIN. I don't think that is true.

Chairman KASICH. You believe that bureaucrats ought to make choices.

Ms. RIVLIN. Not true.

Chairman KASICH. You vetoed two welfare bills.

Ms. RIVLIN. We vetoed two welfare bills because they weren't in the interest of children or of getting people off welfare and into work. My hope is that we can come together on welfare reform and pass something the President will not have to veto.

Mr. SHAYS. Thank you.

With the power vested in me, I am going to cut off the chairman. Mr. Pomeroy.

Mr. POMEROY. I just have a brief observation, Director. I practiced law in a small town in an earlier time in my professional life, and that inevitably involved negotiations. Sometimes you would find in the course of settlement negotiations that the terms kept changing. If you only do this, we will have an agreement. Or you do that, and the terms suddenly are different.

In the course of my professional experience, I became to understand that there are those that simply don't want to agree. And they will put down hard conditions. They will say, for example, 7 years, CBO budget, if you would just do a 7-year CBO budget we can have this deal done.

It was like a mantra, in fact, that I heard throughout this past calendar year. And now here you are, 7 years CBO-scored balanced budget plan and suddenly we have all other kinds of things that prevent us even from capturing the common points to reduce the deficit.

Ms. RIVLIN. That is right.

Mr. POMEROY. That to me strikes back to my earlier experience. I think that maybe some people around here don't want to reach a deal. I am very pleased to hear you represent on behalf of the administration that you are still there, still willing to deal and have a plan that represents an awful lot of things that there is perhaps broad consensus on in terms of reducing the deficit and getting to a balanced budget.

Ms. RIVLIN. I hope we can.

Mr. SHAYS. I think we will be closer to getting an agreement when we have an honest dialogue of the substance of the programs and not referring to some as a cut. In other words, what we want to do as savings and referring to yours as savings.

Ms. RIVLIN. I would agree with that, Mr. Chairman.

Mr. SHAYS. Thank you for that, and say to you that our numbers are not as far apart as the substance behind the numbers. This isn't a food fight. It looks like it to some.

Ms. RIVLIN. Sure looks like it.

Mr. SHAYS. But there are some disagreements just on what we want to do with Medicare and what you all want to do. And it may be that it is taken to the election, and hopefully if it is, it will be a definitive choice one way or the other, and the American people will speak.

My hope would be that we could have substantive agreement before then. But we will not have an agreement if it is not substantive.

Ms. RIVLIN. I agree with that.

Mr. SHAYS. With that, I call this hearing to an end.

Thank you.

Ms. RIVLIN. Thank you.

[Whereupon, at 12:43 p.m., the committee was adjourned.]

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